*The Economic and Social Research Institute*

# THE IRISH WEALTH TAX
# A CASE STUDY
# IN ECONOMICS AND POLITICS

CEDRIC SANDFORD and OLIVER MORRISSEY

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# *A CASE STUDY*
# *IN ECONOMICS AND POLITICS*

CEDRIC SANDFORD and OLIVER MORRISSEY

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## GLOSSARY OF ABBREVIATIONS

CAT – Capital Acquisitions Tax
CCAB – Consultative Committee of Accountancy Bodies
CGT – Capital Gains Tax
CII – Confederation of Irish Industry
CPT – Corporation Profits Tax
DCC – Dublin Chamber of Commerce
DT – Discretionary Trust
ED – Estate Duty
EEC – European Economic Community
FF – Fianna Fáil
FG – Fine Gael
GDP – Gross Domestic Product
GNP – Gross National Product
ICA – Institute of Chartered Accountants
ICMSA – Irish Creamery and Milk Suppliers' Association
IFA – Irish Farmers' Association
IHF – Irish Hotels Federation
IT – Income Tax
NESC – National Economic and Social Council
NIE – National Income and Expenditure Tables
OECD – Organisation of Economic Co-operation and Development
PAYE – Pay-as-you-earn (Income Tax system for Employees)
PNT – Private Non-Trading Company
SKC – Stokes, Kennedy and Crowley
TD – Teachta Dala (Member of Irish Parliament)
VAT – Value Added Tax
WT – Wealth Tax
WTA – Wealth Tax Act
WTB – Wealth Tax Bill

## *General Summary*

### *Objectives of the Research*

The research recorded in this paper had two interconnected objectives, one primarily political, the other primarily economic.

First, the life and death of the Irish Wealth Tax, 1975-78, provided an unusual, if not unique, opportunity for a case study in the tax policy-making process in Ireland. In the space of a few years, and so recently that files have not been destroyed and recollections have not become too dim, a new tax was conceived, formulated, prepared, modified, legislated, implemented and abolished. The study examines the origins of the tax and the part played in the story by the political parties, the executive, the legislature, the Finance and Revenue Departments and the interest groups. No such study has hitherto been attempted in Ireland. Indeed, few tax policy-making studies have been undertaken anywhere in the western world; but a recent study of eight new taxes introduced, or seriously contemplated, in the United Kingdom in the 'sixties and 'seventies, in which one of the present authors participated, provides a valuable basis for comparison and contrast.

Essentially this part of the study seeks to answer the questions: Why was the Wealth Tax introduced? Why did it take the form it did? Why was it abolished?

The study helps us to understand, and also points to deficiencies in the tax policy-making process, which in turn is the prerequisite for improvement. Generalisation from a single case study can be rash. It is clear, however, from the examination of the tax policy-making procedures, that deficiencies were not confined to the Wealth Tax — a conclusion borne out by similar experiences in the United Kingdom. An appreciation of the nature of the tax policy-making process and of the constraints on policy-making are very relevant to the present debate on reforming the Irish tax system.

The second objective was to examine the Wealth Tax as such — the merits and defects of the Irish tax as enacted, together with the characteristics inherent in any annual wealth tax. The study examines how far the wealth tax met the intended objectives and at what economic cost; and how far the defects revealed in the tax were susceptible to remedy.

Although the two main political parties in Ireland have both now repudiated an annual wealth tax, it remains an aspiration of the Irish Labour Party. Moreover, a study of the Irish Wealth Tax is relevant to other forms of capital taxation in Ireland. At a time of severe budget constraint, an increase in the taxation of capital has obvious attractions — especially as, over the past

fifteen years, the contribution of capital taxes to revenue has markedly declined. The value of the study is not, however, confined to Ireland. Other countries contemplating a wealth tax can learn from the Irish experience – in particular, the United Kingdom, where the British Labour Party remains committed to a wealth tax very much on the Irish model.

*Methodology*

The main research methods adopted consisted of the analysis of documents of political parties, of the government and of interest groups; the analysis of Ministerial speeches and Dáil debates; interviews (on an unattributed basis) with some fifty participants in the story – former Ministers, TDs, civil servants and officers of the political parties and of interest groups; and a special empirical study of the compliance costs of the tax – those costs incurred by taxpayers in meeting their requirements under the tax, over and above the tax liability itself.

*Main Research Findings*

1 The Wealth Tax along with a Capital Acquisition Tax was introduced by the Fine Gael/Labour Party coalition, primarily as a substitute for Estate Duty. The Fine Gael Party, under pressure from farmers at a time of rocketing land prices, had promised to abolish Estate Duty. The Capital Acquisition Tax was very light on property passing to successors in the direct line, whilst an annual wealth tax was considered to have much less severe liquidity effects than Estate Duty. But the political commitment was made before the implications of a wealth tax had been at all adequately explored.

2 The civil service, following an incrementalist approach, would have preferred a reform of Estate Duty. Once the politicians had determined on a wealth tax, the Department of Finance and the Revenue Commissioners sought to keep it simple. The White Paper proposed a progressive rate structure but with a minimum of exemptions and reliefs. The Civil Service view, however, did not prevail.

3 Partly as a result of inadequate preparation, the Coalition government which brought forward the Wealth Tax proved an easy prey to many persuasive and powerful interest groups, with the result that the tax which ultimately became law had been so whittled down as to bear little resemblance to that first aired in the White Paper. The enacted Wealth Tax was incapable of achieving the objectives of horizontal and vertical equity outlined in the White Paper and its low yield provided an argument for its abolition.

4 There is no evidence to suggest that the tax, as enacted, had any beneficial effects in leading to a transfer of resources from less to more productive uses, as had been claimed. Much more likely, though the evidence is sparse, it led to a transfer from taxed assets to exempt assets, which included a principal residence, house contents, pension rights and bloodstock.

5 Opponents of the Wealth Tax argued that it had detrimental economic effects especially on investment, but there is no convincing evidence to support this contention. Given the small numbers of taxpayers, the structure of the tax – the high thresholds, the low proportional rate, the many exemptions and reliefs – and its modest revenue yield, the expectation must be that its effects on investment and the flow of funds were negligible. The main qualification to that view is the possible psychological effects. The Wealth Tax undoubtedly raised a big furore and this may have had some depressing effects on the economy.

6 None the less, the opposition to the Wealth Tax cannot be dismissed as simply irrational and opportunist. First, the opposition was initially directed against the tax as originally proposed. The tax of the White Paper would have come much nearer than the tax of the Statute to meeting the objectives of horizontal equity and reduction in inequality, but it would also have been much more likely to reduce saving, discourage investment, hamper the expansion of the private business and of agriculture and to frighten the foreigner. That opposition should have continued after the major modifications announced by the Finance Minister in his May statement was much less rational on economic grounds, but politically understandable. Second, it must be recalled that, in the event, the tax was introduced against an economic background of depression and high inflation and at a time of a rapidly growing overall burden of taxation. In these circumstances, opposition to a new tax of uncertain economic effects was, to say the least, defensible.

7 In one important respect, i.e., the resources taken up in running the tax, the economic effects of the Wealth Tax were less disputable and more capable of measurement. Although the Wealth Tax was levied at only one per cent, the administrative methods pursued were essentially those to which civil servants had become accustomed in relation to Estate Duty – a much higher tax, but levied once in a generation rather than every year. Moreover, whereas with a tax levied at death an inventory of the property and its valuation are generally needed to implement the will of the deceased or the law of intestacy, with an annual wealth tax the inventory and

valuations are required solely for tax purposes. The tax authorities none the less insisted on open market values which the taxpayer was expected to provide and which the authorities might challenge. Consequently, the administrative and compliance costs of the Wealth Tax were abnormally high.

No official administrative costs of Wealth Tax were collected. However, by inference from the number of Wealth Tax cases and the administrative costs of the former Estate Duty, a minimum figure of six per cent of yield can be assumed — three times the cost of Inland Revenue duties taken as a whole.

The compliance costs in the form of professional fees can be calculated from the data provided (on an anonymous basis) by a firm of accountants from the Wealth Tax payers amongst their clients, which constituted a sample of about 10 per cent of all individual Wealth Tax payers. The average compliance cost/tax liability ratio for the sample was 18.5 per cent and the median cost/liability ratio was as high as 28 per cent. In 54 per cent of the sample, compliance costs were at least one-quarter of tax liability and in twenty-two cases (17 per cent of the sample) compliance costs exceeded tax liability. As with other studies of compliance costs, it was found that, whilst, in absolute terms, compliance costs increased with size, in this case size of wealth holding, the cost as a percentage of liability fell markedly as wealth holding increased. Even for the very largest wealth holdings, however, compliance costs remained a significant percentage of tax liability.

Compliance costs were also incurred by a number of people who paid no tax, in order to establish that their wealth did not exceed the exemption threshold.

Whilst precise estimates cannot be attempted, the overall operating costs of the Wealth Tax in relation to individuals cannot have been less than 25 per cent of revenue and could easily have been as much as 50 per cent. For discretionary trusts and private non-trading companies, which were separately assessed, the costs were somewhat lower; but in aggregate it must have cost, in real resources, at least £1m per annum to bring in the £5 million that the Irish Wealth Tax averaged during the three years of its existence.

Whilst, had it survived, the costs could have been expected to fall as taxpayers and revenue officials became more used to the tax, given the low yield, the complicating reliefs and the method of administration with insistence on open market valuation, the Wealth Tax would have remained a tax with exceptionally high operating costs.

8 Measured against the objectives of the White Paper and in the light of the costs of its operation and some possible economic detriment from its psychological effect, the Irish Wealth Tax must be regarded as a costly failure. Whilst a better prepared tax, with lower thresholds and fewer exemptions, would have come closer to achieving the main declared objectives of promoting vertical and horizontal equity, an annual wealth tax has inherent deficiencies for these purposes (especially the problems associated with equitable treatment of pension rights). A strong argument can be presented that these objectives are best sought by different means.

9 The Fianna Fáil Party had consistently opposed the Wealth Tax on the grounds that it was detrimental to investment. When, at the 1977 General Election, the Party was returned to power with a programme of tax cuts for growth, it was natural that the tax should go. More significantly, Fine Gael subsequently repudiated the tax, believing that it had damaged them politically.

## Chapter 1

# *INTRODUCTION*

### *Why the Study?*

This study of the political and economic aspects of the Irish Wealth Tax, which came into effect in April 1975 and was abolished as from April 1978, has two main purposes. The first is to provide a case study of the tax policy-making process in Ireland. The wealth tax offers a remarkable, perhaps unique, opportunity for such a study. In the course of a few years, between 1973 and 1979, the tax was conceived, planned, modified, implemented and abandoned. Within that short span of time it is possible to consider the genesis of the tax, the party, Governmental and Civil Service "inputs" to its planning and execution, the internal and external pressures leading to its modification, its abolition and, finally, its repudiation by the senior partner of the Coalition which introduced it. The opposition it aroused and the reasons for that opposition can be identified and its political significance assessed. Whilst a single case study does not lend itself to generalisation, it may none the less be possible on the strength of it to identify some deficiencies in the policy-making process and perhaps suggest ways for improvement. Studies of tax policy-making are hard to come by. No other study of this kind exists for Ireland, and until very recently there was none in the United Kingdom. However, a recent study there (Robinson and Sandford, 1983) provides the opportunity for comparisons between two countries with sufficiently similar institutions to make the attempt worthwhile.

The second objective of the study was to learn about the Wealth Tax itself, how it was administered, what economic effects it had, how far it achieved the stated goals, and what were the economic reasons, if any, for its abolition. A detailed analysis and evaluation of the tax may be of value to countries which have wealth taxes (and that includes more than half the countries in Western Europe) and even more to countries without wealth taxes but where such taxes may be contemplated. Nowhere is this more true than of the United Kingdom where the Irish Wealth Tax is of particular interest because the British Labour Party remains committed to a wealth tax. Moreover, the particular form of wealth tax contemplated by the British Labour Party is very much akin to the Irish tax – a tax with a high threshold, administered separately from income tax by special capital tax offices, using self-assessment methods and open market valuations for all assets. This much is known from the excursions of the Labour Government of 1974-79 into

the wealth tax field. Having promised to introduce a wealth tax, the Labour Government in the United Kingdom published a Green paper in 1974 as a basis for discussion. A Select Committee of the House of Commons, using the Green Paper as the focus of its work, took extensive evidence on the subject during 1975. Their evidence included memoranda and oral evidence from representatives of the Inland Revenue who outlined in some detail the administrative procedures they intended to follow.

In the event, for various reasons, the wealth tax was shelved, but the structure envisaged had been made clear and the Labour Party commitment to introduce one remained and was re-affirmed in the Budget debates in March 1984.

Not only other countries may benefit from a detailed analysis of the Irish Wealth Tax. Ireland itself may well need to reconsider the possibility of re-introducing a wealth tax, or something similar. The Irish budget deficit is of such chronic proportions and other forms of tax – income tax, VAT and excise duties – are widely considered to be so onerous, that no possible source of revenue can be overlooked. There is a particular case for re-examining capital taxes because their proportional contribution to tax revenue is less than a third of what it was in the early 1970s and, expressed as a proportion of GDP, capital taxes contribute little more than a third of what they did before Estate Duty was abolished (Table 3.2). The Commission on Taxation (1982) has proposed major changes in the Irish tax system, including changes in capital taxes. The Commission did not favour a wealth tax, but this conclusion does not render worthless a detailed study of the Irish tax. On the contrary, such a study provides the necessary basis against which the Commission's proposals can be evaluated and on which Government policy can be determined. Moreover, the problems of inequality in wealth distribution and of inequality in the tax structure, with which the wealth tax was intended to grapple, are as prevalent as ever. The issue of a wealth tax is far from dead in Ireland. The introduction in 1983 of the Residential Property Tax, which might be thought of as a very partial form of wealth tax, has some of the characteristics and poses some of the problems associated with a wealth tax as well as generating some of its own.

*Research Methods*

Where possible, we have drawn on documentary sources – Party literature and Manifestos, Government Statements, White Papers, Bills and Acts, Dáil and Senate debates, the written submissions of interest groups, press articles and reports and such relevant items as are to be found in published books and articles. But many of the crucial features of the story have never been written down, or at any rate, never published. The research has thus placed

much reliance on information derived from personal interviews with the actors – Ministers and TDs, civil servants, party officials, the representatives of interest groups and others. In all some 50 people have been interviewed. Memories grow dim with time and age and we have been very careful to obtain confirmation from more than one source of the views expressed, before including them within our text. Any material included which could not be so confirmed is hedged with appropriate qualifications. The convention has been followed of not attributing to individuals, without their express permission, any statements or views which have not already appeared in print.

*What is a Wealth Tax?*

As a necessary preliminary to this report we must define our terms carefully. Strictly speaking the term "wealth tax" can be used to cover a tax on the transfer of wealth (such as gift tax, estate duty or capital acquisition tax), a tax on the appreciation of wealth (a capital gains tax), as well as a tax on the stock of wealth.

In this paper and following general usage, we confine the term "wealth tax" to an annual tax on the stock of net wealth – i.e., assets minus liabilities. Annual net wealth taxes may be applied to individuals or businesses or both. We are essentially concerned with a personal net wealth tax, which is the more common form. Admittedly, as we shall see in more detail later, the Irish Wealth Tax, besides taxing persons, also imposed a special tax regime on discretionary trusts and private non-trading companies, but neither breaks the principle of a personal net wealth tax. Discretionary trusts consist of assets from which individuals benefit, but as the precise beneficiaries and the extent of their benefit is at the discretion of the trustees, there is no satisfactory way of allocating benefits so that they can be taxed in the hands of individuals; hence the need for a special regime. As for private non-trading companies, they were separately taxed to ease the valuation problems so that they could be valued as an entity rather than in the hands of the shareholders; this procedure also reduced the possibility of their use as an anti-avoidance device. The principle that the tax is intended for persons has not been breached because shares in private non-trading companies in the hands of the shareholder were exempted; there is no double taxation.

A wealth tax, in principle, covers all the assets of an individual. Indeed, it is sometimes referred to as a "net worth" tax. In practice, however, there are always some exclusions from the tax base for administrative or other reasons and a minimum amount of wealth is specified below which no tax is payable.

Thus a wealth tax in this paper means an annual personal net wealth tax which is levied on the value over and above a specified threshold of all the

assets of an individual save for those which are specifically excluded. The tax base, therefore, includes personal possessions like furniture, cars, jewellery, yachts; financial assets like bank balances, stocks and shares; real property — land, houses and other buildings; and business property held in unincorporated businesses.

Whilst most forms of asset fall clearly within the wealth tax base, there are some about which problems arise. Two major ones need to be considered.

Should "human capital" be included in the tax base? Since the abolition (in western nations, at least) of slavery, human capital means the capitalised value of future earning power. The argument, in principle, for its inclusion as wealth may be summarised on the following lines. As a result of inherent ability, investment in education, and training, a person gains skills which confer earning power. These skills constitute an asset which will generate future income and the capitalised value of this earning power should properly be regarded as personal wealth. The parallel between earning power and the return on other forms of asset can be seen most clearly in relation to that part of earning power which is a product of education. A man with some liquid capital may decide to add to his future income by purchasing income-generating property, like a house to let, stocks and shares or a business asset; or he may decide to "invest" it in a top-level management course which he expects to add to his skills so that he can command a higher earned income in the future. In the former case the income-earning asset would clearly count as part of wealth for wealth tax purposes. Why should the capitalised value of the future earning power from his investment in education not also so count?

One reply to this question is that the capitalised value of future earning power has certain characteristics which distinguish it from more tangible assets. It is less permanent than most forms of asset; it is of less certain duration; and it is not freely convertible into cash. Most important, however, it is not transferable. It is uniquely and indissolubly linked to a particular person. These characteristics do not so much affect the formal validity of the argument for including the capitalised value of future earning power as wealth, as affect the value at which it should be included and the difficulty of determining that value. Any attempt to calculate the capitalised value of the future earnings of an individual would require assumptions as to the likely future income stream, the appropriate rate of discount and the appropriate risk factor. The practical difficulties are such that no country has seriously contemplated including the capitalised value of future earnings within a wealth tax base.

Related, but less esoteric, is the question of whether the value of future pension rights should be included as wealth for purposes of wealth tax.

Like the capitalised value of future earning power they are not, in general, realisable or saleable assets and have at best, a limited transferability (as to a widow or dependent children). But they may, none the less, be a very valuable possession which it has become common practice to take into account in estimating the distribution of personal wealth in a country. A person with pension rights enjoys an element of financial security which is comparable to that conferred by the possession of realisable capital assets. During working life he has less need to save for the future than a person without such rights and in retirement his income is secure. To omit the value of future pension rights from the wealth tax base may generate severe inequities. Thus, to take an extreme case, contrast the position of a senior civil servant with an inflation-proof pension with that of a small businessman who puts all his savings into his business with the intention of selling it when he retires, buying Government stock and living on the income therefrom. If the value of pension rights is excluded from the wealth tax base then the civil servant incurs no wealth tax liability on any pension-generating assets during his working life nor in retirement. The businessman, on the other hand, is liable to wealth tax on all his business assets during his working life and on the Government stock which provides his retirement income.

The conceptual case for including the value of pension rights within the wealth tax base is a strong one but the practical difficulties, whilst somewhat less than for the capitalised value of future earnings, are still very considerable. For this reason, or indeed because they take the view that persons should be given tax concessions to encourage them to provide for their old age, none of the countries with wealth taxes include the value of pension rights within the tax base. But it is a much more live issue than the inclusion of capitalised earning power. The general view of the members of the House of Commons Select Committee on a Wealth Tax (H.C. 696, 1975) was that pension rights should be included, though valued on a basis which was generous to the holder.[1]

It must be recognised that the omission of the capitalised value of future earning power imparts some bias into a wealth tax in favour of investment in education as against other forms of investment and in favour of those who have so invested. More seriously, the omission from the tax base of any value for pension rights may be held to undermine, quite significantly, the claims made for a wealth tax on grounds of horizontal equity (see p. 14 following).

1. Some indication of the importance of pension rights in personal wealth can be gauged from United Kingdom estimates. Marketable personal wealth attributable to individuals for 1981 was £535,000m, occupational pension schemes were valued by the Government Actuaries Department at £130,000m and the State pension scheme at £369,000m. (*Inland Revenue Statistics 1983*, HMSO 1983, pp. 38, 39 and 51).

One final point should be made. The tax base should not be confused with the source of payment. Because the tax base is wealth it does not follow that a wealth tax must be paid out of wealth, i.e., by a disposal of assets, nor is an income tax *necessarily* paid out of income (a spendthrift may have to dispose of assets to meet his income tax bill). Where, as with the Irish and many European wealth taxes, there is a ceiling provision limiting the amount of tax which may be taken in wealth tax and income tax combined, it is very clear that the expectation, indeed the general intention, is that the wealth tax should be met from income. None the less, opposition to a wealth tax may owe something to this confusion and to the feeling that it diminishes the wealth of the community.

*The Use of Terms*

We have already defined a "wealth tax" as being an annual tax on personal net wealth — assets minus liabilities — which, in principle, relates to all forms of wealth above some threshold level, but, in practice, will be diminished both by exemptions and reliefs.

In our discussion of the Irish Wealth Tax we need to make certain distinctions, as follows: gross wealth, net wealth, assessed wealth, and taxable wealth.

Gross wealth represents marketable wealth before deduction of debts or liabilities. Net wealth is marketable wealth after deduction of such debts. Assessed wealth is wealth as valued for wealth tax purposes — i.e., net wealth minus exemptions and reliefs. Taxable wealth is the tax base, i.e., assessed wealth less thresholds. Taxable wealth multiplied by the rate of wealth tax gives the amount of tax payable.

The terms can be set out in tabular form thus:

| | |
|---|---|
| | Gross Wealth |
| minus | Debts |
| = | Net Wealth |
| minus | Exemptions and Reliefs |
| = | Assessed Wealth |
| minus | Thresholds |
| = | Taxable Wealth |

This terminology has the advantage of consistency and clarity, but it differs somewhat from that used by the Irish Revenue Commissioners. The official data published by the Revenue Commissioners distinguishes three levels of wealth. Market Value is the open market value of a person's assets, without

any debt deduction, and therefore corresponds to "gross wealth". Net market value is market value less debts, exemptions and reliefs, which is comparable to "assessed wealth". This figure less thresholds gives "value for assessment" which corresponds to "taxable wealth". The deficiency of the Revenue data, from the point of view of our study, is that debts are not distinguished as a portion of gross value and therefore no official figures for net wealth are available.

To ensure consistency in the text, the Revenue data has been converted to our terms with figures for net wealth estimated. The aggregate figures for net wealth of discretionary trusts and private non-trading companies are based on estimates of debts by working back from the value of reliefs. The aggregate net wealth of individuals is based on estimates of debts using independent sources. (Details of these estimates are given in Appendix A.) It follows that any figures based on net wealth (e.g., effective rate of Wealth Tax, Chapter 2) are themselves estimates, whereas figures for assessed and taxable wealth are based on official data. The term taxable assets is used for assets which come within the orbit of the Wealth Tax whether or not they benefit from partial relief of tax. They are assets the value of which determine whether a person is taxed or not and how much. In other words, taxable assets are all assets except those exempted from Wealth Tax.

Chapter 2

# *THE IRISH WEALTH TAX*

Why have a wealth tax (WT)? This chapter reviews the general arguments which have been presented for and against a WT. It then indicates which of these arguments were used with reference to the Irish WT, and by whom, and outlines the structure of the Irish tax. The final section, using Revenue Statistics, seeks to identify who paid WT in Ireland, how much and on what assets.

## *Why Tax Wealth?*

The most obvious answer to the question "Why tax wealth?" is "To raise revenue". In fact, annual wealth taxes have never proved to be prolific revenue raisers. In 1976, of the European countries with wealth taxes, only Switzerland, a special case, raised more than one per cent of total tax revenue from wealth taxes and for most countries, including Ireland, the yield was under 0.5 per cent (OECD, 1979, p. 21). Of course, even a small contribution to revenue is useful. But, in examining the reason for any tax, the real question is why choose to raise revenue by that particular tax rather than by alternative taxes. With a WT the non-revenue reasons are of particular importance.

The general arguments about the taxation of wealth have been comprehensively discussed elsewhere (e.g., Sandford *et al.*, 1975; Meade, 1978; OECD, 1979). This section is, therefore, confined to a brief consideration of the major points under the three headings of Equity, Economic Efficiency and Administrative Efficiency.

### *Equity*

Arguments for a WT based on considerations of equity take two forms: first, that a WT contributes to the achievement of horizontal equity, the principle that people in equal circumstances should pay equal amounts of tax; second, that it contributes to vertical equity, the principle that those in different circumstances should pay different amounts of tax – which is usually interpreted to mean that the better off should not only pay more tax but proportionately more (progressive taxation). This argument is often expressed in the form that a WT should reduce inequalities in the distribution of wealth and (more loosely) that a WT should redistribute wealth.

*Horizontal Equity*: The essence of the horizontal equity argument is that the possession of wealth confers benefits over and above any income derived from that wealth. These benefits include independence, security, the opportunity for advantageous purchase and the capacity to acquire income without sacrifice of leisure. Moreover, some forms of asset (e.g., works of art) generate a psychic income – an income of satisfaction. These benefits give a taxable capacity to wealth holders which is not tapped by income tax. Therefore, to attain horizontal equity in the tax system, an income tax needs to be supplemented by an annual wealth tax.

The horizontal equity case was put most vividly some years ago by Nicholas (now Professor Lord) Kaldor in a report to the Indian Government (Kaldor, 1956). He contrasted a beggar and a maharajah. The beggar had no wealth and no income. The maharajah had no income but a stock of gold and jewels and a palace. Under income tax they both pay the same – zero. But the taxable capacity of the maharajah is far in excess of that of the beggar. Therefore, a WT is necessary to supplement and complement an income tax.

Some countries have, at various times, sought to tax the additional benefits generated by wealth by taxing income from property more heavily than income from work. But, in principle, such a procedure is less satisfactory than a WT because it fails to tax wealth which yields no income (like the maharajah's jewels) and it fails to allow for the fact that different capital values may yield the same income.

*Vertical Equity*: The argument for reducing inequality of wealth rests on a value judgement – that large inequalities are undesirable. The attempt to diminish wealth inqualities by means of a WT may have a limited or a more radical objective. The limited objective would be a wealth tax which reduced the capacity of the rich to accumulate wealth and this could be attained by means of a substitutive tax, i.e., one which could be paid out of income and was likely to have been substituted for top rates of income tax. The more radical objective is an additive tax, one added to existing income tax rates, such that the rich could only meet the bill for income tax and WT combined by the sale of some assets. Such an additive tax would have an immediate and direct effect in reducing inequality in the distribution of wealth. However, unless the Government uses the proceeds of the WT directly for the benefit of the least wealthy, the redistribution is indirect and not necessarily for the benefit of the poorest. Even if the revenue is used to improve welfare benefits or to reduce taxes on the least well off, it is likely to result in consumption, and hence will not build up the wealth of the poor even though it will raise their living standards.

*Economic Efficiency*

The economic efficiency argument for a WT is that it could lead to a more efficient use of capital. A WT has to be paid irrespective of the amount of income, if any, an asset is yielding. The introduction of a WT may, therefore, encourage wealth owners to switch from nil-yielding assets to income-yielding assets and from low-yielding assets to higher-yielding assets. For example, suppose a man owns a piece of land which he leaves unutilised. If there is an income tax but no WT he will pay no tax in respect of that land. If, however, a WT is introduced, he will have to pay it in respect of the land even though it yields no income. This situation may encourage the owner to cultivate or develop the land himself or to sell it to someone who will cultivate or develop it.

To put the point another way, if a WT is imposed with no accompanying reduction in income tax, the effect is to reduce the rate of return on all assets, but also to change relative rates of return so that higher rates of return become more attractive, relatively, to the lower rates compared with the pre- WT situation. Hence there is an incentive to switch into assets with a higher income yield. The point can be illustrated by an example. Suppose there is an asset of £100 capital value yielding £5 income and another asset of £100 capital value yielding £20 income. If income tax is paid at 50 per cent, the net of tax yield of the first asset will be two and a half per cent and of the second 10 per cent. There is a ratio of 4:1 between the high and low yielding assets. Suppose now that a one per cent WT is introduced. Then the net of tax yield of the first asset is reduced to one and a half per cent and that of the second to nine per cent. The ratio between the high and low yielding assets has now become 6:1. With a nil yielding asset the net of tax yield after the introduction of the WT has changed from zero to minus one per cent.

If the WT has been substituted for top income tax rates on income from property (on a revenue neutral basis) the incentive to go for high yield will have been further increased. The net of tax yield on nil and low yielding assets will have fallen whilst that on high yielding assets may well have risen in absolute as well as relative terms.

*Administrative Efficiency*

The argument of administrative efficiency is that the existence of a wealth tax will provide information of value in administering other taxes (capital taxes and income tax) and may help to unearth and prevent evasion elsewhere in the tax system. Thus a capital gains tax and a WT complement each other in that anyone understating the value of an asset in order to pay less WT will find themselves liable to more capital gains tax if they sub-

sequently sell the asset; conversely, if they have sought a high acquisiton price to minimise gains tax, they may find themselves paying more WT. Further, WT returns will provide evidence of income-yielding property which can be checked against a taxpayer's return of income from property. Again, WT returns can be cross-checked with returns for capital transfers, both during lifetime and at death; on the one hand, unexplained rises in wealth between years may signify evasion of transfer tax and, on the other hand, checks can be made to see if known transfers show up in subsequent WT returns. A further information value of a WT is that it helps to build up a more accurate picture of the distribution of wealth in a country.

*Counter Arguments*

Some of the arguments against a WT will be examined more fully in respect of the Irish tax when we attempt a final evaluation of it in Chapters 10 and 11. Here we shall simply review the main lines of opposition. The arguments against a WT are partly matters of principle; partly because it fails to achieve in practice the advantages claimed; and partly because it may generate adverse economic effects.

The main objection in principle is to the use of a WT to reduce inequality. Some object simply because they do not share the particular value judgement. But amongst those who do wish to see a reduction in inequality in wealth distribution, many would argue that a WT is not the best instrument for that purpose. In principle, a WT taxes wealth irrespective of how it is acquired or how it is used. Many would argue that wealth acquired by hard work, saving and enterprise, ought to be treated differently from wealth acquired by inheritance or by winning the pools. Similarly, the wealth of the playboy who engages in conspicuous consumption ought to be treated differently from the wealth of the farmer who lives a hard-working and frugal existence. In short, a WT is insufficiently discriminatory and a more carefully chosen selection of taxes would be more satisfactory, more effective and adhere more closely to most people's ideas of justice.

The failure of a WT to achieve in practice what is claimed for it in theory applies in particular to the horizontal equity argument and to the administrative argument. No existing WT covers either the value of human capital or, perhaps more significantly, the value of pension rights. Administrative compromises mean in practice that some assets are taxed at market value (like quoted shares) whilst others (like agricultural land) are taxed at below market value. Moreover, because of enforcement difficulties, in many countries with wealth taxes, the gold and jewellery of the maharajah would be exempt, whilst in the remainder it would almost certainly be returned (if at all) at a value which the taxing authorities would have to take on trust

and which often would be no more than nominal. In short, a WT is far from attaining the horizontal equity which is its declared aim. As for the administrative advantage, whilst some cross checking may take place between taxes, in practice, and especially when the taxes are administered from different sections of the Revenue, officials are rarely able to utilise the opportunities offered to them in theory. Furthermore, a WT generates its own considerable administrative problems and costs, to which must be added the compliance costs of taxpayers, which may be very substantial.

There is also a marked failure to achieve in practice the efficiency advantages claimed for a WT. In practice some assets are exempt or partly relieved of tax. The tendency is then for funds to move into these assets. Whilst sometimes they may be productive assets, in other cases they are assets (like jewellery, paintings, or antique furniture) which are very difficult to tax. Moreover, the basic premise of the efficiency argument may be fallacious. High income yield is not necessarily equatable with efficiency or low yield with inefficiency.

A WT, moreover, generates its own adverse economic effects. A new business, however potentially profitable, is unlikely to make profits in its early years; yet it will have to pay WT in these years. Similarly, an efficient firm going through a bad patch (say, as a result of loss of export markets through political action) will find the process of readjustment harder because of WT. Closely-owned companies under enterprising owners will find expansion more difficult; and, if the WT is additive, there is a danger of dissaving by the rich and of an outflow of funds and the emigration of the wealthy as the ultimate form of tax avoidance.

As with the advantages, so with the disadvantages; the validity and force of many of the arguments depend very much on the precise form a WT takes, as is revealed by a consideration of the Irish WT.

*Arguments on the Irish Wealth Tax*

A comprehensive summary of all the arguments presented for and against the Irish WT, and by whom, would be unduly long and would necessarily be duplicated in the following chapters. Accordingly, this section concentrates on the arguments set out in the White Paper (1974) with some reference to other arguments presented subsequently which are not covered by the general arguments outlined above. Table 2.1, at the end of this section, summarises the arguments put forward by various bodies.

The White Paper on Capital Taxation advocated a WT to promote horizontal equity and social justice (i.e., to reduce inequality). The merit of a WT as a means of constraining avoidance or evasion of income tax, and as an encouragement to greater efficiency in the allocation of resources, was also

mentioned. At least in the context of Irish politics, the approach of the White Paper was radical:

> The promotion of social justice requires that the tax system should contribute to the achievement of a more equitable distribution of wealth and income in the community. A proportionate or even a progressive income tax will not achieve this objective since it will have no effect on the redistribution of existing accumulations of wealth. It can only, to a very limited extent, prevent the accumulation of new concentrations of wealth (White Paper, 1974, p. 24).

Because the purpose of a WT was seen as reducing inequality, the proposal in the White Paper was for a WT which could be additive for the rich, with rates varying from one and a half per cent to two and a half per cent and with modest thresholds (compared with those actually introduced), few exemptions or reliefs and no ceiling provision (see Appendix B). Much of the initial criticism of the White Paper was directed at the ideological (i.e., redistributive) aspects of the proposals and the opposition was so strong that the proposed WT was substantially modified before it was actually introduced.

Two important arguments were presented in respect of the Irish WT which have not been covered by the general arguments presented above. First, the Fine Gael (FG) party emphasised that the WT was being introduced specifically as a replacement for Estate Duty, and as such was part of a package including Capital Acquisitions Tax. The WT would be a more equitable and less burdensome tax than ED. Then, in opposing the WT, Fianna Fáil (FF) argued that, while the principle of reducing inequality in wealth distribution was acceptable to them, a WT would undermine attempts to provide the stimulation that the Irish economy required in the mid-1970s, and would, therefore, be ill-timed. They argued that the introduction of the WT would have a bad effect on business confidence and hence on investment.

Table 2.1 provides a summary of the arguments used by various groups or categories of people to support or oppose the introduction of the WT. The terms are mainly self-explanatory. The "Information Benefit" refers to the value, for administrative and anti-evasion purposes, of the data a WT should generate. The "cost" argument is the view that a wealth tax would not be worthwhile because of its high collection costs and low revenue.

From the arguments presented in the White Paper and those adopted by the Coalition in introducing the WT, four objectives of the WT can be identified. (1) To replace Estate Duty with a more equitable and less burdensome tax. (2) To increase equity in the tax system and, to a lesser extent, reduce the degree of inequality in wealth distribution. (3) To promote

Table 2.1: *Summary of arguments relating to the Irish wealth tax*

| *Argument* | *White Paper* | *Political parties*[1] | | | *Interest groups*[2] | *Media*[3] |
|---|---|---|---|---|---|---|
| | | *FG* | *Lab.* | *FF* | | |
| *For:* | | | | | | |
| Horizontal equity | + | + | + | A | A | A |
| Vertical equity | + | + | + | A | A | A |
| Redistribution | + | | + | – | – | |
| Economic efficiency | + | + | + | – | – | |
| Information benefit | + | + | + | – | | |
| Replace estate duty | + | + | | | | |
| *Against:* | | | | | | |
| Disincentive | | – | – | + | + | + |
| Capital outflow | | – | | + | + | + |
| Valuation problems | | | | + | + | |
| Cost | | | – | + | | |
| Ill-time | | | | + | + | |

*Code:* +: Supported the argument (either for or against WT)
–: Rejected the argument (whether for or against WT)
A: Accepted the principle of the argument but did not consider that a WT was the best solution.

*Notes:* 1 The table codes the general party view, not the aggregate views of individual party members. Dissident views are excluded. For details, see Chapter 6.
2 Only general interest group views are considered. For details, see Chapter 6.
3 The arguments, on balance, as were given in the editorials and commentaries of three national dailies: *Irish Times, Irish Independent* and *Irish Press*, see Chapter 6.

efficiency in the allocation of resources. (4) To provide the Revenue Commissioners with information which would help them to identify and prevent avoidance and evasion of direct taxes.

## *The Structure of the Irish Wealth Tax*

The effects of a WT, and hence the strength of the individual arguments for and against such a tax, depend very much on its structure – thresholds, rates, exemptions and reliefs, and administrative methods. This section summarises the essential elements of the Irish WT as introduced by the Wealth Tax Act of 1975, which differed very considerably from the proposals of the White Paper (see Chapter 6). The provisions are basically concerned with the answers to three questions: who pays the tax? on what? and how much? Table 2.2 offers a concise tabular summary of the provisions of the tax.

Table 2.2: *Summary of provisions of the Irish wealth tax, 1975-78*

| | |
|---|---|
| *Persons liable:* | Individuals, private non-trading companies, discretionary trusts. |
| *Tax unit:* | The family, i.e., husband, wife and dependent children. |
| *Thresholds:* | Single: £70,000 (widow or widower £90,000).<br>Married: £100,000 + £2,500 for each minor child. |
| *Rates:* | 1 per cent single rate. |
| *Ceiling and floor:* | Individuals: total income tax and net wealth tax (of individuals only) not to exceed 80 per cent of total income; but net wealth tax payable not to be reduced below 50 per cent of full liability. |
| *Treatment* of *of non-residents:* | A person not domiciled or ordinarily resident is liable to tax on assets in Ireland only. |
| *General exemptions:* | Household effects.<br>Important works of art and collections (subject to public access).<br>Owner-occupied houses.<br>Pension rights.<br>Farmer's livestock, bloodstock, growing timber.<br>Property of charities. |
| *Valuation:* | Generally market value.<br>Special valuation for land in urban areas with development value.<br>Reduction of 50 per cent (subject to a maximum of £100,000) for agricultural land and machinery of farmer, commercial fishing boats and hotels.<br>Reduction of 20 per cent for certain stocks and shares of Irish trading companies providing employment in Ireland.<br>Values of immovable property were allowed to stand for three years. |
| *Administration:* | Centralised, in same office as gift and inheritance taxes. |

*Persons Liable*

The WT Act designated and defined assessable and accountable persons. Assessable persons were those who could be held liable for WT. Accountable persons were those who were held legally responsible for the payment of the liability of an assessable person. The two were not necessarily identical. The Act defined three classes of assessable person: individuals, discretionary trusts and private non-trading companies.

An individual was either a single person, a husband (with whose wealth was aggregated the wealth of his spouse and minor children – minor being under 21 years) or a widowed person (with whose wealth was aggregated that of minor children). A discretionary trust existed where property was held in trust with either income or/and capital to be applied for the benefit of any number of people at the discretion of the trustees (or others). Where

such a trust existed exclusively for the benefit of a spouse and/or children, it was treated as part of the husband's taxable wealth. A private non-trading company was defined as a body corporate with no more than fifty shareholders, under the control of no more than five people, which had not issued its shares to the public and whose income was mostly investment income.

The persons held primarily accountable for payment of the tax were, in the case of an individual, the individual or a personal representative; the trustees of a trust; and the secretary of a private non-trading company. In some cases there were also persons held secondarily accountable who were not required to pay the tax personally but were to ensure that tax was paid (e.g., agents of absentee landlords).

*Thresholds*

The WT thresholds, which only applied to individuals, were £70,000 for a single person, £90,000 for a widowed person, £200,000 for a married person and £2,500 for each minor child. These thresholds were not indexed. Individuals became liable for WT if the net market value of their wealth (as defined for WT purposes) exceeded the threshold.

The fact that the threshold for a married man was not double that of a single person could be held to discriminate against marriage (a point which was raised in the Dáil debates) and might well have been ruled unconstitutional had it been tested in the Courts.[2]

Residents were liable on their world assets (domestic plus foreign assets). Non-residents, generally, were only liable on their Irish assets, but, for the purpose of WT liability, residents who emigrated were deemed to be resident for the three valuation dates following emigration.

*The Tax Base*

Once the liable persons had been identified, their wealth had to be ascertained for the purposes of charging WT. In general parlance the market value of assets is taken to be the price they would fetch if sold on the open market while the net market value is this amount less any debts attendant on the assets. For the purposes of the WT, the Act defined the net market value of a person's wealth not simply as market value minus debts, but also less other deductions, namely, exemptions and reliefs. Thus, net market value becomes "assessed wealth" in our terminology (p. 11). These deductions were of the nature of "Tax Expenditures":

2. As in the case of Murphy v. the Attorney General, see Commission on Taxation, 1982, p. 234.

> Subsidies, reliefs, or concessions in the tax system which reduce tax liability and have an effect on the Government's budget similar to direct expenditures. (Commission on Taxation, 1982, p. 54).

(i) *Exemptions*: Exempted assets were assets which, although technically of such a nature as to be liable for WT, were excluded from the tax base, as follows:

1 Principle private residence, except parts thereof used mainly for business or let, plus "normal contents" and one acre. Only individuals could claim this exemption.
2 Livestock owned by a farmer and bloodstock. Only individuals could claim this exemption.
3 Works of art, jewellery, scientific collections, etc., not held for purposes of trade which were deemed by the Revenue Commissioners to be of national, scientific, historic or artistic interest and were kept in the State with reasonable public access.
4 Gardens, of special merit, which provided reasonable public access.
5 Timber growing on land owned by the owner of the timber.
6 Pension rights.[3]
7 Property of a discretionary trust or private non-trading company established for charitable purposes only, or as a pension scheme holding, or as a Unit Trust.
8 Shares in a private non-trading company which were taxed as being the property of the company but not as the property of an individual.

(ii) *Reliefs*: A tax relief is a special provision which reduces the tax liability of the asset receiving relief. In the context of the WT, such reliefs took the form of applying a specific percentage reduction to the market value of certain assets in order to arrive at net market value or assessed value. Some WT reliefs applied to individuals only, others applied to all assessable persons.

(a) Agricultural property, fishing boats and hotel premises, when part of the taxable wealth of an individual, were eligible for a deduction of the lesser of 50 per cent of market value or £100,000. Agricultural property was defined to include land, farm buildings, structures and machinery owned by a farmer. A farmer, in turn, was defined as an individual for whom not less than 75 per cent of gross wealth was agricultural property, livestock and bloodstock on the valuation date. Hotel premises for the purposes of the tax meant that portion of a

3. Human capital, though not specifically mentioned, was also exempt, see p. 9.

hotel which was bedroom accommodation. To determine net market value, the relief was applied and debts incumbent on the assets were deducted such that the proportion of debts deducted to total debt was equivalent to the inverse of the proportion of relief to market value. (For example, suppose a farmer had land valued at £400,000, the WT deduction would be £100,000. The proportion of relief to market value would be one-quarter; the proportion of debts deducted, three-quarters. Thus, if the debt was £200,000, the net market value would be £150,000 (£400,000-£100,000 (relief) – £150,000 (debts)).

(b) Productive property owned by an assessable person was eligible for a deduction of 20 per cent of market value (30 per cent in the case of all hotel property) and such property was defined as: ". . . property in the State which is used directly in the provision of employment in the State . . . and . . . property consisting of stock or shares of a trading company . . ." (WT Act, Section 10(3)). Debts were then deductible in proportion to the relief so that 80 per cent of debts were deductible (or 70 per cent for hotel property). Thus, for productive property, "net market value" (assessed wealth) equalled: Market Value (MV) – 20 per cent MV – 80 per cent debts.

It was provided that an individual could opt for whichever of the two forms of relief gave the greatest deduction. Before any reliefs were applied, the market value of taxable assets had to be determined by valuation.

*Method of Valuation*

In general, all assets were valued according to open market valuation defined as: ". . . the price which, in the opinion of the [Revenue] Commissioners, such property would fetch if sold in the open market . . . subject to such conditions as might reasonably be calculated to obtain for the vendor the best price for the property". (WT Act, Section 8(1).) All values were those as determined on the valuation date which was April 5th each year, although the values of immovable property could be allowed to stand for three years.

*The Tax Charge*

The tax charge was a single rate of one per cent of taxable wealth (assessed wealth less the threshold for an individual). Interest was charged on late payments. There was a ceiling provision such that the combined burden of income tax (which had a maximum marginal rate of 77 per cent in 1975) plus WT could not exceed 80 per cent of total (pre-tax) income, except that a "floor" provision restricted the relief to not more than 50 per cent of the WT liability. Once a person received a WT assessment they could then apply

for the ceiling relief if entitled.

The major features distinguishing the Irish WT from other European wealth taxes were the high thresholds, the exemption of the principal private residence and the general application of open market valuation to all assets. Figure 2.1 gives the thresholds and starting rates of European wealth taxes at the time the Irish WT was in force. It shows very clearly how much higher was the Irish threshold relative to others.

*Analysis of Wealth Tax Statistics*

This final section examines statistics on the Irish WT based on data from the Annual Reports of the Revenue Commissioners, with such supplementary information as the Revenue officials were willing to supply, in an attempt to identify who paid WT and on what assets. These data are a prerequisite for considering the effective incidence of the Irish WT. More detailed tables than those set out in the chapter are in Appendix A, which also explains the limitations of the data and defines more fully the concepts used.

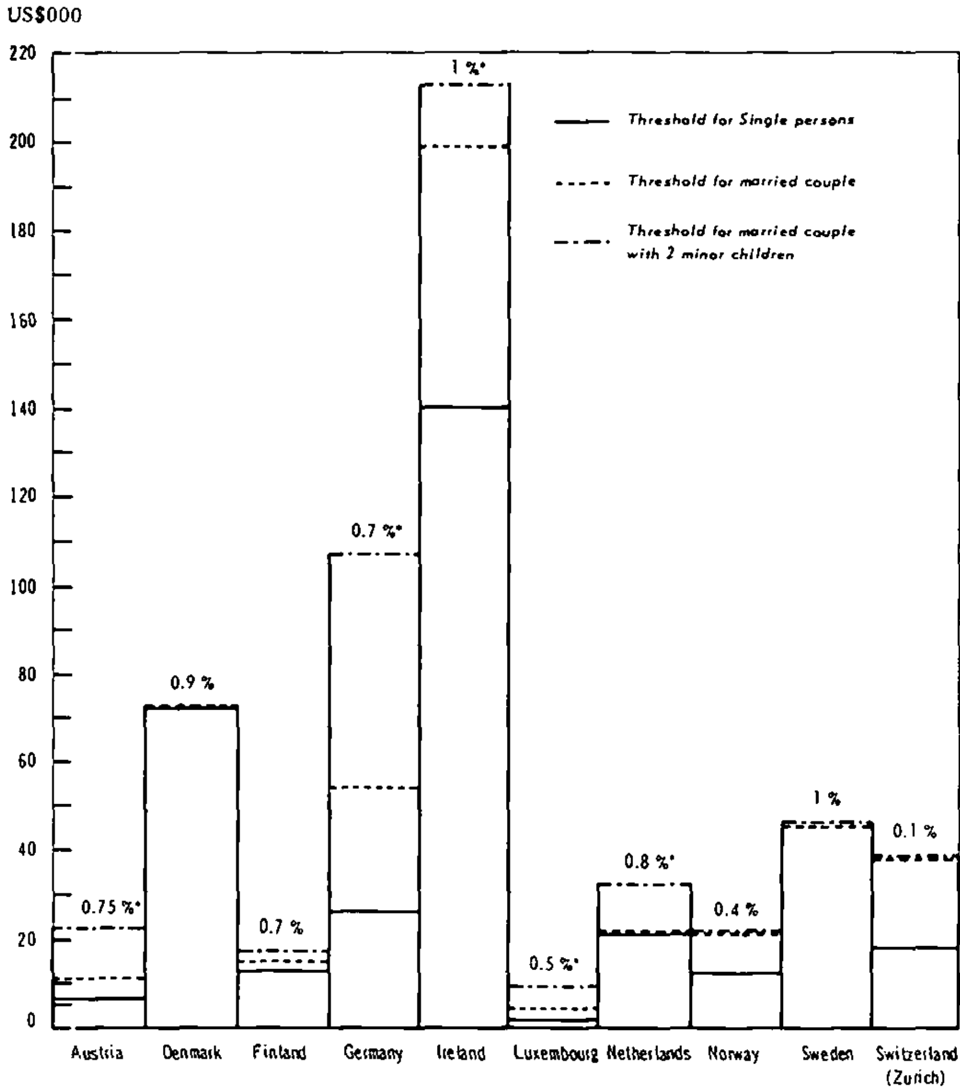
The fundamental deficiency in the data is that they do not relate assessments to specific valuation dates; it is, therefore, not possible to analyse separately the composition of assessments for each of the three valuation dates, April 5th 1975, 1976 and 1977. This situation arises because assessments were made in six separate periods (1976-81) and those made after April 1977 were not referred to a valuation date. Accordingly, the approach adopted here is to sum the values of the variables for each of the six periods and divide this total by three to give the "average annual value" (see Appendix A for a fuller explanation). Because of this limitation in the data we cannot identify any changes over the period.

A second problem with the data is that of identifying the actual revenue from the WT. The Revenue Commissioners used three separate measures. In the period up to and including their 1981 report these measures and the total revenue associated with them were:

(i) Exchequer receipt: £18,919,000
(ii) Net receipt: £18,940,782
(iii) Net produce: £15,758,981

Terms (i) Exchequer receipt, and (ii) Net receipt, give figures for the actual revenue collected in respect of the WT. The Exchequer receipt of a tax in a particular year is the amount paid by the Revenue Commissioners over to the Exchequer Account in that year. The net receipt of a tax is the net amount (after repayments of tax) paid by taxpayers to the Revenue Commissioners in a particular year. The net produce of a tax is the estimated ultimate

Figure 2.1: *Wealth tax thresholds and starting rates at 1.1.1976*
*US dollars*




*Single rate.
*Note:* Denmark and Sweden had the same threshold irrespective of family size.
*Source:* OECD, 1979.

yield from the tax in the year, whether actually collected in that year or later, after deducting all discharges and remissions and setting off all repayments. The figure of the net produce of the WT in the annual reports is based on the value of assessments made. The biggest difference between this figure and the other two is due to interest on late WT payments. The first two figures contain a substantial sum of interest actually paid while "net produce" includes a very small element of estimated interest (about 3.5 per cent of the total, see Appendix A). This is the nearest published figure for WT yield net of interest. The latest figures (see Appendix A) show that by the end of 1983 the net receipts of WT exceeded £20m, of which up to £5m could be interest. On this basis, the WT yield averaged some £5m for each of the three valuation dates.

The following analysis is based on Revenue Commissioners' data on assessments made, hence the relevant revenue concept is net produce. The analysis is in four parts: WT revenue by class of "person"; the asset composition of assessed individuals; the asset composition for discretionary trusts and private non-trading companies (PNT); and a general summary.

*Who Paid Wealth Tax?*

Table 2.3 shows the contribution to WT revenue from the three classes of "assessable persons" – individuals, discretionary trusts and PNTs. The definitions of each category of wealth are those set out at the end of Chapter 1.

Over 50 per cent of the persons assessed to WT were individuals, but whilst they accounted for over 70 per cent of both the gross and the net wealth they only contributed 54 per cent of the revenue. This outcome is partly a result of exemptions and reliefs, which favoured individuals more than discretionary trusts and PNTs and reduced their share of assessed wealth to 68.2 per cent (against a figure for net wealth of 72.4); but the main reason for the relatively low contribution to revenue from individuals was the existence of thresholds, which applied only to individuals, and reduced their share of taxable wealth to 54 per cent. For the same reasons the (average) effective rate of WT (tax as a percentage of net wealth) was only 0.4 per cent for individuals against 0.87 and 0.89 per cent for discretionary trusts and PNTs respectively.

The table also shows that the average liability of individuals paying WT was quite high at £1,161. The implication of this figure, taken in conjunction with the low effective rate, is that the average individual WT payer had a wealth holding of close on £300,000. This takes no account of the fact that figures of net wealth, derived from taxpayer returns covering both taxable and non-taxable assets, are themselves likely to be under-estimates.

The Revenue Statistics reveal that 63 per cent of individual taxpayers

Table 2.3: *Wealth, wealth tax revenue and effective rates analysed by class of assessable person (average annual values)*

| | Individuals | Discretionary trusts | PNTs | All assessable persons |
|---|---|---|---|---|
| Number | 2,368 | 940 | 1,247 | 4,555 |
| Per cent | 52.0 | 20.6 | 27.4 | 100 |
| 1 Gross Wealth (£m) | 724 | 109 | 198 | 1,031 |
| Per cent | 70.2 | 10.6 | 19.2 | 100 |
| 2 Net Wealth (£M)* | 684 | 102 | 158 | 945 |
| Per cent* | 72.4 | 10.8 | 16.7 | 100 |
| 3 Assessed Wealth (£m) | 498 | 89 | 144 | 731 |
| Per cent | 68.2 | 12.2 | 19.7 | 100 |
| 4 Taxable Wealth (£m) | 275 | 89 | 144 | 508 |
| Per cent | 54.1 | 17.5 | 28.3 | 100 |
| 5 Net Produce (£m) | | | | |
| (i) Tax | 2.75 } 2.86 | 0.89 } 0.93 | 1.44 } 1.47 | 5.08 } 5.25 |
| (ii) Interest | 0.11 | 0.04 | 0.03 | 0.17 |
| Per cent | 54.4 | 17.6 | 27.9 | 100 |
| 6 Effective rate of WT (%)* | 0.4 | 0.87 | 0.89 | |
| 7 Average WT liability | £1,161 | £944 | £1,153 | |

*Notes:* All percentages except (6) are the share of each class of assessable person in the aggregate for all assessable persons.
All figures rounded, see Appendix A for more detail and for definitions.
*Authors' estimate.

were married, 24 per cent single and 13 per cent widowed. There are no data on what proportion of the taxpayers were non-resident.

### *Composition of the Wealth Holding of Individuals*

An analysis of the composition of the wealth holding of individual WT payers is interesting, not only to indicate the types of asset held by the wealthiest citizens, but also to enable us to see how different portfolios of assets affected tax liability given the various exemptions and reliefs. Consider, for example, the case of a farmer. By definition (WTA Section 10.4) at least 75 per cent of his gross wealth must have consisted of agricultural assets. Any livestock or bloodstock he owned was exempt from WT. On the remainder of his agricultural property he would receive relief equivalent to 50 per cent of the valuation (subject to a maximum of £100,000, or,

alternatively a minimum of 20 per cent of the gross value). His private residence plus one acre of land was exempt together with the contents of his house. Allowing for thresholds, a married farmer would have been very unlikely to have attracted WT liability on a net wealth of under £250,000 and might have escaped liability on a considerably higher figure.

Table 2.4 indicates that exemptions accounted for almost 14 per cent of the gross wealth of individuals; of those exemptions 70 per cent consisted of principal private residence and contents (Table A.6). Reliefs and debts then accounted for just over 17 per cent of aggregate gross wealth, with our own estimates suggesting that debts might constitute about one-third of this sum. We are not able to distinguish between reliefs and debts for each class of asset, but if our overall estimate of debts is approximately correct, it would appear that different degrees of relief are primarily responsible for the considerable differences in the proportions of relief and debts (Col. 4) between classes of assets. On the other hand, agricultural property is likely to carry significant debts – and there were signs of the increasing indebtedness of farmers over this period (Bacon *et al.*, 1982, p. 21) and Class C property, "other productive assets" included hotels where indebtedness might be considerable. Indebtedness, of course, reduced WT liability.

Class D assets (e.g., land or securities not eligible for relief) and Class E assets (property situated outside the State) received no reliefs and the only deductions allowable were debts which in the case of Class D accounted for almost 10 per cent of gross wealth.

Table 2.4: *Composition of aggregate wealth of individuals (average annual value)*

| *(1)* | *(2)* | | *(3)* | | *(4)* |
|---|---|---|---|---|---|
| | *Gross wealth* | | *Assessed wealth* | | |
| *Class of asset** | *£m* | *% total* | *£m* | *% total* | *Reliefs and debts (2)-(3) as % of (2)* |
| Agricultural property | 188 | 26.0 | 117 | 23.5 | 37.7 |
| Stocks and shares | 146 | 20.2 | 110 | 22.2 | 24.4 |
| Other productive | 14 | 1.9 | 9 | 1.8 | 34.4 |
| Class D "non-productive" | 165 | 22.8 | 151 | 30.2 | 9.0 |
| Class E "non-State"† | 111 | 15.3 | 111 | 22.3 | 0 |
| Exemptions | 100 | 13.8 | 0 | 0 | – |
| *Total* | 724 | 100 | 498 | 100 | 17.4 |

*Notes:* *As defined in Revenue Commissioners' Reports, see Appendix A.
†Total wealth of Class E assets is assumed equal to assessed wealth, see Table A.4.

*Asset Composition of Discretionary Trusts and PNTs*

Discretionary trusts and PNTs had no benefit of thresholds and were more restricted in reliefs than individuals: their relief for productive property was restricted to 20 per cent and they could not claim the major exemptions of private residence and contents.

As Table 2.5 shows, the predominant form of asset for discretionary trusts was stocks and shares in a trading company. The most significant point in relation to PNTs was the relatively high share of wealth accounted for by Class D assets (assets situated in the State not eligible for relief) and the exceptionally high value of debts for such property.

*General Summary on WT Payers and their Asset Holdings*

More than half of the net produce of WT was accounted for by individuals who owned 70 per cent of the gross wealth of WT payers. About a quarter of the wealth of these individuals consisted of agricultural property (38 per cent of which was taken up by reliefs and debts) whilst a fifth was stocks and shares in trading companies which also received considerable relief. A

Table 2.5: *Asset composition of the wealth of discretionary trusts and private non-trading companies (average annual value)*

| (1) | (2) | | (3) | | (4) |
|---|---|---|---|---|---|
| | Gross wealth | | Assessed wealth | | Reliefs and debts |
| Class of asset | £m | % | £m | % | (2)-(3) as % of (2) |
| *Discretionary Trusts* | | | | | |
| Stocks and shares | 41 | 37.7 | 31.9 | 36 | 22.2 |
| Other productive | 15.9 | 14.6 | 12.1 | 13.6 | 23.9 |
| Class D "non-productive" | 30 | 27.6 | 25.4 | 28.6 | 15.1 |
| Class E "non-state" | 19.4 | 17.8 | 19.4 | 21.8 | 0 |
| Exemptions | 2.5 | 2.3 | – | – | – |
| *Total* | 108.8 | 100 | 88.8 | 100 | 16.1 |
| *Private Non-Trading Companies* | | | | | |
| Stocks and shares | 65.1 | 32.9 | 46 | 32 | 29.2 |
| Other productive | 16.6 | 8.4 | 11.5 | 8 | 31.7 |
| Class D "non-productive" | 83.2 | 42.1 | 56.9 | 39.6 | 31.6 |
| Class E "non-State" | 29.4 | 14.9 | 29.4 | 20.4 | 0 |
| Exemptions | 3.4 | 1.7 | – | – | – |
| *Total* | 197.7 | 100 | 143.8 | 100 | 30.8 |

*Notes:* As for Table 2.4.

further fifth consisted of what was defined as "non-productive" property (e.g., land let out to somebody else; holiday homes) while roughly 15 per cent consisted of property situated outside the State. Exempted property, mainly residences, accounted for a further 14 per cent of their total wealth. Debts, exemptions and reliefs together reduced the total wealth liable for WT by about 31 per cent (though this figure must be regarded as an underestimate because of the likely undervaluation of exemptions), while thresholds reduced it by about 30 per cent, on aggregate. The aggregate effective rate of WT, which was about 0.4 per cent excluding interest, ranged from an insignificant figure for those just over the threshold, to about 0.4-0.5 per cent for married persons with a total wealth of about £0.5m – but much would depend on the asset composition. Farmers faced a lower effective rate than non-farmers of similar wealth until their total wealth exceeded £0.5m (Appendix B).

Discretionary trusts, the single largest component of whose wealth (almost 40 per cent) was stocks and shares in trading companies, accounted for about 10 per cent of total assessed wealth but paid about 18 per cent of total net produce. Reliefs plus debts accounted for about 16 per cent of the wealth of trusts whereas for companies they accounted for about 31 per cent. Private non-trading companies accounted for about a fifth of total wealth and contributed about 28 per cent to revenue; stocks and shares in trading companies were the major component of such wealth at about a third. Roughly a fifth of the wealth of trusts and companies consisted of property situated outside the State.

Interest payments accounted for about a quarter of Exchequer receipts of WT, and this is a clear indication of the delays in completing assessments (the reasons for which are considered in Chapter 7).

This account of the structure of the Irish WT and those who paid it provides a basis from which to assess how far it achieved its objectives – a task undertaken in the penultimate chapter.

## Chapter 3

## *THE ECONOMIC BACKGROUND*

Taxes are never introduced in a vacuum. To understand thoroughly the motives behind the WT, why it was introduced when it was, what effects it had and how it was perceived by contemporaries, what opposition it engendered and why it was abandoned and repudiated, it is necessary to examine it against the economic and political backgrounds. This is the task of the next two chapters. This chapter looks at the economic background; it starts with a brief account of the macro-economic setting; it then outlines the features of those taxes which were most closely related to WT. Finally, the chapter examines the trends in taxation and how these trends inter-related with, and were to some extent a response to, developments in the economy as a whole and how both affected attitudes to WT.

### *The Macro-Economy 1970-1980*

Any detailed consideration of the Irish economy as a whole in the 1970s would be outside the scope of this study and in any case has been well covered elsewhere (e.g., Dowling and Durkan, 1978 and Bacon *et al.*, 1982). Table 3.1 provides a summary of the main economic indicators which largely tell their own story. The essential point is that the Coalition Government of 1973-77, which brought in the capital tax package, presided over a period of severe economic recession with unemployment and inflation at record levels for the decade and investment low. There could hardly have been a less propitious time for the introduction of a wealth tax. When inflation is high and variable a meaningful rate scale for a wealth tax, which will tie in with income tax rates, is hard to devise. When unemployment is high and investment low, fears that a wealth tax will further damage business confidence must be at their peak. This economic background does much to explain the strength of opposition to the WT and the willingness of ministers to move a long way from the initial proposals in the White Paper of 1974.

One further point of particular significance to the WT story is vividly brought out by Table 3.1 – the rise in the price of agricultural land. Over the whole period 1970-1980, the rise in the price of agricultural land was nearly five times that of consumer prices. In the early years of the 1970s the relative differences were still more pronounced. Between 1970 and 1974 the consumer price index rose 42 per cent, the index of land prices 256 per cent –

Table 3.1: *Economic indicators, 1970-80*

| Year | *(1) Consumer prices* | | *(2) Agricultural land prices* | *(3) Unemployment* | *(4) Output* | *(5) Investment* |
|---|---|---|---|---|---|---|
| | *Index* | *Annual rate of increase %* | *index* | *Annual rate %* | *% Change* | *% Change* |
| 1970 | 100 | 8.2 | 100 | 4.9 | +2.3 | +0.2 |
| 1971 | 108.2 | 9.0 | 207 | 4.6 | +4.7 | +9.4 |
| 1972 | 117.9 | 8.5 | 172 | 5.2 | +5.1 | +2.5 |
| 1973 | 128.0 | 11.3 | 225 | 4.7 | +6.5 | +20.0 |
| 1974 | 142.4 | 17.1 | 356 | 4.6 | +2.5 | -7.5 |
| 1975 | 166.8 | 20.9 | 460 | 6.4 | +0.1 | -3.3 |
| 1976 | 201.6 | 18.0 | 623 | 7.8 | +2.4 | +10.1 |
| 1977 | 237.9 | 13.6 | 1001 | 7.6 | +4.8 | +4.7 |
| 1978 | 270.3 | 7.6 | 1084 | 7.1 | +5.9 | +18.3 |
| 1979 | 290.8 | 13.2 | 1414 | 6.1 | +4.5 | +14.1 |
| 1980 | 329.2 | 18.2 | 1159 | 6.0 | +0.7 | -6.2 |

*Notes, Sources:*
(1) Irish CPI, McAleese and Ryan (1982, p. 10; p. 94).
(2) Index of Agricultural land prices derived from data on average market price per acre, Kelly (1983) p. 6 and p. 14.
(3) Unemployed as a percentage of labour force, Sexton (1982) p. 43.
(4) Growth in GNP at constant market prices, output data, National Income and Expenditure (NIE), 1974, 1976, 1980, 1982.
(5) Change in gross domestic fixed capital formation at current market prices; 1970-74, NIE (1976); 1975, NIE (1980); 1976-80 NIE (1982).

more than six times as fast. This rise in land prices, partly in anticipation of Ireland's entry into the EEC, explains the growing agitation of farmers against Estate Duty, for which WT was considered a more acceptable replacement. The continued rise in land prices thereafter fuelled the fears of those farmers well below the WT threshold that they would in time be lifted above it. Against this background the chapter now describes those taxes most closely related to WT as a prelude to examining the trends in taxation.

## *Taxes Related to Wealth Tax*

### *Capital Taxes*

Wealth tax was presented in the White Paper as part of a package of capital taxes in which WT and Capital Acquisition Tax (CAT) were seen as replacing the existing death duties. A particular argument was that death duties, usually paid once in a generation, were at a high rate and therefore created liquidity

problems. WT would be paid annually, at a low rate, and would not cause the same problems. It could, indeed, be thought of as the kind of annual insurance premium that some of the wealthy had paid against eventual death duty liabilities. Capital Acquisition Tax was levied at death, but for property bequeathed or donated in the direct line it was intended as a light tax.

*Estate Duty*. Before 1974 there were three types of death duty in force, the most important being Estate Duty (ED) which accounted for 90 per cent of revenue and was levied on the aggregate value of the estate of the deceased. Legacy Duty was levied on inherited personal property, and Succession Duty was levied on inherited real property, where the beneficiaries were *not* spouses, lineal descendants or lineal ascendants of the deceased. As Estate Duty was by far the most important and was the only one of the three paid by the closest relatives, hereafter we shall concentrate on that and generally use the term Estate Duty in referring to the death duties in Ireland which WT and CAT replaced.

Estate Duty was levied on the total property comprised in the estate of the deceased, provided the total value of the estate exceeded £10,000 (as of May 1973). The tax extended to gifts *inter vivos* made within five years before death, but earlier gifts were tax free.

The property comprising estates was generally valued according to open market valuation. Quoted shares were valued at two-thirds of their market value while unquoted shares were valued at realisable liquidation value.

Once the value of the estate for ED purposes had been determined, the rates of duty were applied according to the slab principle (i.e., the full amount of the value of the estate was charged to the rate for the band within which it fell) as distinct from the slice principle (under which each successive slice of capital would be charged at separate, increasing rates). Marginal relief was granted on the transition from one rate to another. The rates of ED were highly graduated beginning (in 1973) at 4 per cent chargeable on estates valued from £10,000 to £11,000 and rising progressively to a maximum of 55 per cent on the value of estates over £200,000.

The rates of ED were charged without reference to the relationship of the beneficiary to the donor. However, where the property of the estate passed to a widow there was an abatement of duty and an extra allowance for each dependent child. There was also a quick succession relief. The period to 1975 saw a series of modifications to ED designed to ease the burden of the tax – successive increases in the threshold, the provision of exemptions and the extension of reliefs. Thus the threshold was raised in a series of stages from £2,000 (in 1960) to £10,000 (in 1973).

In the period 1968-73 ED was paid on the estates of seven per cent of those aged over 20 years dying in the State each year (White Paper, 1974, p. 34).

Following the rise in land prices, abolition of ED was a significant issue in the 1973 election. A number of criticisms of ED of various degrees of validity were set out in Chapter 6 of the White Paper on Capital Taxation and are summarised below.

1. Increases in the rates of duty and higher valuations, as a result of inflation and other pressures on the property market, produced heavier tax burdens.
2. The burden of ED sometimes necessitated the sale of family businesses or farms so that the liability could be met.
3. Wealthy foreigners might be discouraged from settling in the State because of the ED level.
4. ED was inequitable in that it did not fall on all estates in the same time interval, (although quick succession relief alleviated this inequality to some extent).
5. ED could be avoided by making gifts *inter vivos* at least five years before death (and such gifts would be totally exempt from any tax).
6. Being payable only on death, Estate Duty ". . . is a once or twice in a generation tax on capital. Consequently, as it occurs infrequently, too much has to be taken at any given time. This infrequency and the large sum of tax payable encourage avoidance". (White Paper, 1974, p. 36).
7. ED was levied at a time when the family was least able, psychologically, to cope with the burden.
8. Income tax had already been paid on the earnings out of which the savings to build wealth were generated; therefore ED was a form of double taxation.
9. ED taxed the thrifty while exempting the spenders.

In defence of ED it was argued that it was simple and relatively inexpensive to administer.

*Capital Acquisition Tax.* CAT became effective for inheritances from the date ED was abolished and for gifts from 28 February 1974. It applied to all gifts or inheritances received by a beneficiary from any donor. Gifts and inheritances from a particular donor were aggregated, the most recent slice bearing the highest rate of tax. There were a number of exemptions, the most important of which were retirement, redundancy or pension payments and objects

of special national, scientific or cultural interest. Valuation was generally on the open market basis although agricultural property received by a farmer attracted the same valuation reliefs as for WT.

The CAT was charged on the slice principle at rates dependent on the relationship of donor and donee, and on the value of the gift or/and inheritance. Gift tax was charged at 75 per cent of the corresponding rate of inheritance tax; the first £250 of a gift was exempt. If an inheritance was by a spouse or child of the donor, the first £150,000 was exempt; the maximum rate of 50 per cent applied to any inheritance above £400,000. Other inheritors were subject to a more severe regime, for example, where the donee was a sibling or child thereof, only the first £10,000 of an inheritance was tax-free and the 50 per cent rate applied to any excess over £113,000.

The main argument for CAT was to reduce inequality in the distribution of wealth. Inheritance, and to a lesser extent gifts, were seen as major factors in promoting and maintaining inequality. The very high threshold for transfers in the direct line necessarily reduced the effectiveness of the tax for this purpose, but CAT and WT should be seen as essentially complementary.

*Capital Gains Tax*. The CGT was introduced in 1975 at the rate of 26 per cent on any capital gain realised on the disposal of taxable assets on or after 6 April 1974 (the base valuation date). Any form of property, excluding Irish and sterling currency, was considered a taxable asset for CGT except Irish Government (local and central) securities, bonds and saving certificates, securities of certain semi-State bodies, life assurance policies and a principal private residence, which were all exempt. There were a few other exemptions, the most notable of which was gambling gains. CGT was only charged on that portion of an individual's net gain in a given year which exceeded £500. Losses could be offset against gains. The gains of spouses were aggregated and net losses of one could be set against net gains of the other.

The principle behind taxing capital gains was that the gain was akin to income; if earned and unearned income were subject to tax, it was inequitable that capital gains were tax free, especially as income could sometimes be disguised as capital gains. The particular motivation for CGT was the large tax free profits made by speculators during the late 1960s and early 1970s as property prices soared.

When first introduced no distinction was made between long and short-term gains, but FF introduced tapering relief in 1978: assets disposed of within three years incurred CGT at 30 per cent, and the rate declined the longer an asset was held so that no CGT was payable on an asset held for over 21 years. Indexation of the acquisition value of gains was also introduced in 1978, so that the tax was levied only on the real gain and not on

gains due solely to a general rise in prices.[4]

*Local Rates.* One further tax needs to be briefly examined in the context of capital taxation — Local Rates.

Rates were, and in respect of business premises still are, a tax on the occupiers of immovable property levied by local authorities. The level of Rates payable equals the Rateable Valuation of a property multiplied by the Rates Poundage of the local authority district in which the property is situated. Rateable Land Valuations were the values applied to agricultural land and were based on the original Griffiths valuation made between 1852 and 1865. These valuations were never revised and were long recognised as being inaccurate and inequitable. In 1982 agricultural Rates were declared unconstitutional because of deficiencies in the valuation and appeal mechanisms and were abolished. The other two types of Rates were those on private residential property (domestic Rates) and on commercial/industrial property (commercial Rates) which were originally based on net annual letting value. By the late 1950s the method of valuation had been changed to a notional system of multiplying cubic area by a monetary figure.

It is an open question whether Rates should be regarded as a capital tax. Copeland and Walsh (1975, p. 53) have suggested that they should be so classified, and clearly it would be possible to define capital taxes in such a way as to comprehend Rates. But wealth taxes, death duties, gift taxes and capital gains taxes all relate to the generality of assets whereas Rates are levied on only one form of property.

Rates further differ from capital taxes in that whereas they are levied on the capital value of assets, Rates are levied on an assessed annual value and are formally payable by the occupier rather than the owner. They are therefore very much in the mould of taxes on goods and services — a tax on the use of house-room or of commercial property.

Despite these differences there is value in seeing what has happened to Rates relative to total taxation and to capital taxation. It seems likely that some of the effective incidence of Rates falls on the owner of the property reducing the net of tax return from the asset and depressing its value as does a WT. Moreover, in any comprehensive WT, the property subject to Rates would represent a substantial proportion of total property subject to WT. With such a tax, it should not be too difficult to devise valuation methods common to both taxes (as is done in several continental countries). In fact, under the Irish WT, owner-occupied houses were exempt. The abolition

4. These changes were estimated to have reduced CGT yield in 1978 by £1.2m (Dáil Debates, 21/2/'78, PQ No. 342).

of domestic Rates in 1978 strengthens the case for including all residential property within any future WT. It is, indeed, ironical that a recent tax innovation in Ireland is the Residential Property Tax, levied on just that component of wealth specifically excluded from the WT and which both FG and FF had sought to relieve from liability to Rates.[5]

The attempt to reduce the burden on domestic ratepayers first took the form of increasing central government finance for local services in the period 1973-76. Then, in 1977, the Coalition Government provided a 25 per cent relief for domestic property. In 1978, FF carried through an electoral promise to abolish domestic Rates and Rates on some other categories of property at a cost in terms of revenue forgone of about £92m in 1979 and £106m in 1980 (Department of Environment, Annual Reports). It is hardly surprising that Table 3.2 shows a marked decline in Rates as a proportion of total taxation. Clearly, such a change in financing local government puts increasing pressures on central government finances.

*General*

As Table 3.2 shows, capital taxes as a percentage both of total taxes and of GDP declined markedly over the period, a decline clearly visible before the abolition of WT but accentuated by that abolition.[6] It was only in 1980 that the revenue from CGT plus CAT plus WT (by this time abolished but still generating some revenue) exceeded in nominal terms the revenue generated by death duties[7] alone in 1973-74. In real terms it was far below. (The 1980 Revenue from WT, CAT plus CGT, in terms of 1973 prices, was £6.4m, less than half the yield of death duties in 1973.) As another way of viewing this reduction in revenue, it has been estimated that if death duties had not been abolished and had remained unchanged, they would have yielded £50m in 1980[8] (or £21.6m in 1973 prices).

*Income Tax*

The incidence of a wealth tax is intimately bound up with the rates of income tax. This relationship is explored more fully in Chapter 9, which examines economic effects, but the essential point to be made here is that

5. An important consideration, however, is that the Residential Property Tax was only levied on that portion of the value of residences which exceeded £65,000 and only then if household income exceeded £20,000 p.a. (1983). Both thresholds are indexed and the values for the year ended April 5 1984 were £65,622 and £22,030 respectively.

6. A declining share of revenue from capital taxes was a characteristic of almost all OECD countries during this period. The decline in the United Kingdom was particularly marked (Sandford, 1983).

7. We use the term death duties here, rather than ED, because we refer specifically to the yield from all three taxes (p. 33) of which ED contributed 90 per cent.

8. Dáil Debates, 18/11/81, PQ No. 9.

Table 3.2: *Capital taxes and rates, as per cent total taxation and GDP, 1972-80 (selected years)*

| Year[1] | Capital taxes | | | | | Local Rates | Capital taxes as per cent of | | Rates as per cent of | |
|---|---|---|---|---|---|---|---|---|---|---|
| | DD | WT | CGT | CAT | Total | | Total taxation[2] | GDP[3] | Total taxation[2] | GDP[3] |
| | £m | £m | £m | £m | £m | £m | % | % | % | % |
| 1972/3 | 13.2 | – | – | – | 13.2 | 70.1 | 2.16 | 0.59 | 11.5 | 3.14 |
| 1973/4 | 14.0 | – | – | – | 14.0 | 71.2 | 1.90 | 0.52 | 9.7 | 2.66 |
| 1975 | 13.5 | 3.7 | 0.4 | – | 17.6 | 84.9 | 1.79 | 0.47 | 8.6 | 2.31 |
| 1976 | 8.8 | 6.5 | 0.4 | 0.4 | 16.2 | 106.8 | 1.22 | 0.35 | 8.0 | 2.37 |
| 1977 | 6.7 | 5.8 | 1.5 | 2.9 | 16.9 | 107.4 | 1.09 | 0.31 | 6.9 | 2.00 |
| 1978 | 5.9 | 0.7 | 3.2 | 5.0 | 14.8 | 81.6 | 0.83 | 0.23 | 4.6 | 1.30 |
| 1979 | 3.3 | 0.8 | 4.0 | 7.5 | 15.6 | 89.7 | 0.75 | 0.21 | 4.3 | 1.24 |
| 1980 | 3.0 | 0.8 | 6.0 | 8.0 | 17.8 | 103.0 | 0.66 | 0.205 | 3.8 | 1.18 |

*Sources:* Revenue Commissioners Reports 1972-1980; Annual Reports of Department of Local Government 1970-1976; Annual Reports of Department of Environment 1977-1980; OECD (1982).

*Notes:* 1 1974 is excluded because fiscal data was for April to December, Rates and GDP data were for 12 months.

2 Total taxation excluding Social Security contributions.

3 GDP, at market prices, as given in OECD (1982), Table 36.

rates of income tax and wealth tax need to be considered together. With, say, a 10 per cent rate of return on assets, a one per cent wealth tax is the equivalent of a 10 per cent income tax; with a rate of return of five per cent, a one per cent wealth tax is the equivalent of a 20 per cent income tax. No meaningful assessment of a wealth tax can be made save in the context of income tax.

The system of an income tax at a standard rate in conjunction with a surtax at graduated rates on taxable income above a certain level was in operation until 1974, when surtax was abolished and a graduated scale of income tax replaced it. Table 3.3 gives the various rates of income tax in the period 1974-79.

By international standards the rates of income tax introduced in 1974 were high, reaching a maximum of 80 per cent above the relatively modest level of £8,350 of taxable income. But in fact the 1974 rate structure represented a slightly lower tax burden (at every point in the scale) than the combined income and surtax regime which preceded it, which had also carried a top rate of 80 per cent.

In 1975, on the introduction of WT, Mr Richard Ryan, the Minister of

Table 3.3: *Rates of income tax, 1974-79*

| *Range of taxable income* | *Rates of tax 6/4/74 to 5/4/75* | *6/4/75*[1] | *6/4/75 to 5/4/77*[2] | *Range of taxable income* | *Rate of tax 6/4/77 to 5/4/79* |
|---|---|---|---|---|---|
| | | % | | | |
| First £1,550 | 26 | 26 | 26 | First £500 | 20 |
| Next £2,800 | 35 | 35 | 38.5 | Next £1,000 | 25 |
| Next £2,000 | 50 | 45 | 49.5 | Next £3,000 | 35 |
| Next £2,000 | 65 | 55 | 60.5 | Next £1,500 | 45 |
| Next £2,000 | 80 | 65 | 71.5 | Next £1,000 | 50 |
| Remainder (above £10,350) | 80 | 70 | 77 | Remainder (above £7,000) | 60 |

*Sources:* RC report (1979, Table 73); Moran (1975).

*Notes:* 1 Revision of upper rates of income tax as promised by Mr Ryan, Coalition Finance Minister, to alleviate impact of WT.

2 Imposition of a 10 per cent surcharge, on all rates above 26 per cent, in June mini-budget, to apply to the full 1975/6 tax year.

Finance, proposed a reduction in the top rates of income tax. However, this was largely nullified in practice by a 10 per cent temporary surcharge. Even so, taxpayers with an income in excess of £6,350 (about two per cent of taxpayers) were left paying a lower marginal rate of tax in 1975 than in 1974. The 1977 changes nominally lowered the whole rate structure but, given the intervening inflation, markedly reduced in real terms the income level at which each new rate became payable. In 1977 the maximum marginal rate of 60 per cent was payable on all taxable income above £7,000 compared with a previous higher maximum rate payable above £10,350 of a more valuable currency.

*Taxation of Company Profits*

Except for private non-trading companies, companies as such were not liable to WT; WT was paid on the value of shares in the hands of shareholders who were liable to tax. Thus WT had no impact on the public company with a widely diffused shareholding. However, it could affect the closely-owned company (a private company whose ownership is dominated by a small number of shareholders). Major shareholders in such a company might have to withdraw funds from the company in order to meet their tax liability. Such a situation might reduce the funds available for business expansion (a point which we consider further in Chapter 9); moreover, it would mean that any taxes payable on dividends would have to be met if

the shareholders were to have access to the funds. Hence, a brief consideration is required of the way in which companies were taxed, and in particular of any distinction in the taxation of retained and distributed profits.

Prior to 1976 companies were subject to income tax at 35 per cent and a Corporation Profits Tax (CPT) at rates, in 1974-76, of seven and a half per cent on the first £2,500 and 23 per cent on the remainder. The CPT was allowed as a deduction before income tax was charged so that, combining both taxes, the marginal rates were respectively around 40 per cent and 50 per cent (Bristow, 1977). This tax was an imputation system in essence because shareholders were given a credit for income tax pre-paid (at the 35 per cent rate) on dividends received. A shareholder liable to surtax or to income tax above the standard 35 per cent rate would have to pay the balance himself. The new method of taxing company profits, foreshadowed in a White Paper (1974), was introduced in the Corporation Tax Act (1976) which provided for a single rate of corporation tax at 50 per cent with a reduced rate of 40 per cent for companies with profits not exceeding £5,000. The treatment of dividends remained unchanged. Both forms of corporate tax exempted profits on manufactured exports. The rates of Corporation Tax were reduced, and the thresholds increased, in subsequent years.

### *Tax Trends*

One important trend in tax revenues has already been pointed out – the marked decline, during the 1970s, in revenue from capital taxes and Rates as a percentage both of total taxes and of GDP. This section explores the trends in total taxation, in which income taxation inevitably plays the dominant part and examines the balance of taxation, especially between direct and indirect taxes.

By way of prelude, brief mention should be made of a report, published in 1960, by a Commission on Income Taxation set up in 1957 by the Coalition Government of 1954-57. Its first report is of considerable importance in Irish fiscal history because it led to the introduction of PAYE in 1960 for most employees. However, the third report has special relevance to this study for in it the Commission considered four partial substitutes for income tax: sales tax, expenditure tax, capital gains tax and wealth tax.

A wealth tax was considered attractive by the Commission but was rejected because of likely effects on investment and administrative and valuation problems. For similar reasons a capital gains tax was not recommended.

Table 3.4 indicates the pattern of central government taxation and borrowing from 1965. The table shows the enormous growth in total taxation as a

Table 3.4: *Central government revenue, selected years 1965-79*

| *Year* | *Taxation as % GNP* | *Percentage composition of taxation* | | | | | *Borrowing as % GNP*[1] |
|---|---|---|---|---|---|---|---|
| | | *Indirect tax* | *Direct taxes* | | | *Social Security* | |
| | | | *Income* | *Corporate* | *Capital* | | |
| 1965 | 21.9 | 60.0 | 19.0 | 10.3 | 2.1 | 7.4 | 6.2 |
| 1969 | 25.8 | 59.8 | 20.2 | 7.9 | 2.0 | 8.9 | 7.0 |
| 1971 | 28.3 | 55.2 | 25.5 | 6.8 | 1.7 | 9.6 | 5.5 |
| 1973 | 28.7 | 54.4 | 25.7 | 6.1 | 1.8 | 10.5 | 8.7 |
| 1975 | 29.1 | 50.2 | 27.2 | 5.2 | 1.6 | 14.9 | 14.1 |
| 1977 | 31.7 | 49.7 | 29.4 | 4.4 | 0.9 | 14.4 | 15.6 |
| 1979 | 32.0 | 45.8 | 31.1 | 5.9 | 0.7 | 14.9 | 18.9 |

*Sources:* OECD (1975, 1982); NIE (1970, 1974, 1976, 1980).
*Note:* 1 Borrowings for 1965-73 are authors' estimates for calendar years derived from official figures relating to fiscal years.

percentage of GNP, from 22 to 32 per cent between 1965 and 1979.[9] Moreover, there was a disproportionate increase in those taxes falling most directly on individuals — personal income taxation, which increased its share of the tax take from 19 to 31 per cent and social security contributions, from seven to 15 per cent.

In the long period of FF governments extending from 1957 to 1973 during which income tax was levied at a single standard rate (with a surtax addition) this rate was increased from 31.7 per cent to 35 per cent (in 1966).

No less important, the main personal allowances failed to keep pace with inflation. Whereas the single and married allowances were increased by 28 and 25 per cent respectively the consumer price index rose by 104 per cent. An increase in the tax take also arose from higher real earnings. As Dowling concluded from an econometric study covering a somewhat longer period:

> . . . while the overall level of allowances stayed frozen . . . the combination of higher prices and higher incomes meant that more and more people were in the tax net and so each extra pound earned was increasingly likely to enter the tax net . . . (Dowling, 1977, p. 9).

Between 1961 and 1975 the total numbers at work rose by 55,300 (Sexton, 1982), whilst over a slightly longer period, between 1960 and 1975,

9. About two percentage points of this increase in central government taxation is accounted for by the transfer of local expenditure to central government arising from the reduction and ultimate abolition of the domestic Rate in the 1970s (see p. 37).

the number of individual income tax payers increased from about 220,000 to 740,000, a rise of over 500,000 (NESC, 1976).

It was also widely felt, not only by the Irish Labour Party, that the distribution of the income tax burden was becoming increasingly biased against PAYE workers. In 1961/62, 40 per cent of gross income assessed by the Revenue Commissioners came from PAYE taxpayers and they paid 32 per cent of income tax collected. In 1975, 58 per cent of gross income assessed was from PAYE taxpayers who paid 70 per cent of income tax collected. PAYE had become the major source of income tax over the period and it seems likely that the relative burden of income tax on PAYE taxpayers had increased.[10]

Table 3.5 shows that in the period before and during the life of the WT effective income tax rates rose almost continuously. Because of the large increase in allowances in 1978, single personal allowances were brought in line with the Consumer Price Index whilst married allowances increased by more, widening the gap between them.

Table 3.5: *Effective income tax rates, 1974-78, selected years*

| *Year* | *1974* | *1976* | *1978* | *1974-78 % change* |
|---|---|---|---|---|
| Personal allowances (£s)[1] | | | | |
| *Single* | 500 | 620 | 865 | +73 |
| Married | 800 | 1,010 | 1,730 | +116 |
| Consumer price index | – | – | – | +74 |
| Average industrial earnings (annual, £s)[2] | 1,809 | 2,802 | 3,774 | +109 |
| Effective tax rate:[3] | | % | | |
| Single | 18.8 | 23.1 | 22.3 | – |
| Married (no child) | 14.5 | 17.7 | 14.3 | – |

*Notes, Sources:*
1 Only the two major allowances are given here. A full list of allowances is given in the Revenue Commissioners' Reports.
2 Grossed up estimates derived from average weekly earnings of persons employed in transportable goods industries, as given in Statistical Abstracts.
3 Estimate of the portion of 2 which would be absorbed by income tax, assuming only personal allowances applied. (The earned income allowance was discontinued in 1974 and the PAYE allowance was not introduced until 1979.) In the case of the married person it is assumed that the wife is not working.

10. The Revenue Commissioners' Reports give the breakdown of gross income by the tax schedule to which it accrues but, except for PAYE, there is no comparable breakdown of tax revenue by schedule.

The conception, life and death of the WT were intimately bound up with the vicissitudes of the economy as a whole and with other changes in the tax system, in part a product of these vicissitudes. Inflation of agricultural land prices brought ED under fire and some form of annual tax on wealth was considered as an acceptable substitute. The onset of economic depression allied to high rates of inflation at the time the WT was proposed, debated and introduced heightened opposition to it and strengthened the special pleadings of interest groups. The growing overall burden of tax made the WT even less acceptable, especially as financial exigencies prevented Richard Ryan, the Coalition Finance Minister, from effecting the intended reductions in income tax. When FF came to power the abolition of the WT was seen by Finance Minister George Colley as part of the package of economic measures intended to combat depression and stimulate economic growth.

This account of the economic background to the WT has inevitably touched on political factors. The introduction of the WT was considered by some (especially members of FF) as a political or ideological rather than an economic measure. The next chapter examines the political background in more depth.

## Chapter 4

# *THE POLITICAL BACKGROUND*

The development of the Irish WT occurred within a policy-making process in which the major political parties, Fine Gael (FG), Labour and Fianna Fáil (FF), played a central part (the former two introduced the WT, while the latter abolished it). In the first part of this chapter, the nature of these parties is considered: their history, bases of support and attitudes to taxation. The latter part of this chapter discusses the political environment, i.e., those factors which made the WT a political issue.

## *Political Parties*

When twenty-six of the counties of Ireland obtained independence from Britain in 1922 the largest political party, Sinn Féin, split into two factions: the first, which supported the treaty with Britain, went on to become Cumann na nGaedheal in 1923; the second, which opposed the Treaty, went on to become Fianna Fail in 1926. In 1933, Cumann na nGaedheal joined with two minor parties to form Fine Gael. As can be seen from Table 4.1, all of the Irish governments since 1923 have consisted of one or other of these two major parties (considering FG and Cumann na nGaedheal as one party), either as single party governments or as the major partner in coalitions.

Furthermore, in the elections since 1933 these two parties together have generally received 80 per cent or more of first preference votes and only on two occasions did they receive less than 70 per cent.[11] The dominance of these parties notwithstanding, a large number of small or medium sized parties have contested elections, and these were most successful between 1940 and 1960. The largest and most important of these parties was the Labour Party, which has experienced mixed electoral fortunes since then. The chapter only discusses the three major parties because they were the only ones of importance for the WT.

### *Origin and Development*[12]

The Fianna Fáil party was officially formed by Eamonn de Valera in May 1926 and entered the Dáil in 1927 as the second largest party. By 1932

11. All references to the number or percentage of seats or first preference votes are derived from *Administration Yearbook* (1982), p. 336.

12. A fuller historical account of all the parties can be found in Manning (1972).

Table 4.1: *Irish Governments, 1923-1983*

| *Period* | *Type of Government* | *Governing Party(ies)* |
|---|---|---|
| 1923-32 | Single party – minority[1] | Cumann na nGaedheal |
| 1932-48 | Single party – majority[2] | Fianna Fáil |
| 1948-51 | Coalition | Fine Gael, Labour, Clann na Poblachta (Republican Party), Independents |
| 1951-54 | Single party – minority | Fianna Fáil |
| 1954-57 | Coalition | Fine Gael, Labour, Clann na Talmhan (Farmers' Party) |
| 1957-73 | Single party – majority[3] | Fianna Fáil |
| 1973-77 | Coalition | Fine Gael, Labour |
| 1977-81 | Single party – majority | Fianna Fáil |
| 1981-82 | Coalition (minority) | Fine Gael, Labour |
| 1982 | Single party – minority | Fianna Fáil |
| 1982- | Coalition | Fine Gael, Labour |

*Source: Administration Yearbook* (1982), p. 336.

*Notes:* 1 This was effectively a majority government until 1927 since those opposed to the Treaty refused to take their seats until then.

2 FF had a minority in 1932-33; 1937-38 and 1943-44.

3 FF were in a minority from 1961 to 1965 and held exactly half the Dáil seats from 1965-1969.

de Valera was able to form a minority government and remained in government until 1948, a total of 16 years. Fianna Fáil were out of government for much of the 1950s but won 78 seats in 1957 and resumed governing. By this time young blood was beginning to gain influence in the party; de Valera resigned in 1959 and was elected President of Ireland, being replaced as leader of the Party by Sean Lemass.

The new emphasis was on social and economic issues with Lemass encouraging the younger members to produce initiatives and develop policies. The "First Programme for Economic Expansion" was published in 1958 and introduced indicative planning to Ireland. Sean Lemass resigned voluntarily in November 1966 and, for the first time in its history, FF had to elect a new leader by contest. Jack Lynch was the eventual victor but failed to achieve the dominance of his predecessors, although he was electorally very popular. An internal split emerged in the party in the early 1970s.

The 1973 election saw a Coalition victory and although FF had a landslide win in 1977 this success was short-lived as, in government, the Party failed to come to terms with the economic reality facing the country. In 1979, Jack Lynch resigned as leader and was replaced by Charles Haughey who won a bitter contest with George Colley.

Fine Gael was founded in late 1933 through the merger of three parties. It remained a fairly weak party until the late 1940s. Participation in the 1948-51 Coalition rejuvenated a party whose image benefited from being the partner in a government which declared the 26 counties a Republic in 1949 and adopted expansionary economic policies. James Dillon was leader of the party from 1959 to 1965 and during this period support for the party grew and its ideas developed, reflected in the production of a progressive socio-economic programme, "The Just Society", by the younger members of the party. Mr Dillon retired after the 1965 election and was succeeded by Liam Cosgrave.

Fine Gael and Labour contested the 1973 election on a joint 14 point programme and formed the government which introduced the WT. Mr Cosgrave resigned after losing the 1977 election and was replaced by Dr Garret FitzGerald who did much to improve the image of his party and can take much of the credit for the successful performance of FG in the 1981 election where they won 36.5 per cent of the first preference votes — their best figure since 1927 — and 65 seats, their highest ever. This allowed them to form a coalition government with Labour. In the face of rising economic problems and a policy of financial rectitude this minority government failed to gain the support of enough Independent TDs and was brought down in the Budget vote of January 27 1982. However, the Coalition regained power in the election of November 1982.

The Labour Party was formed in 1912 and, although it has contested every election except that of 1918, it has never gained above 17 per cent of the popular vote. The party was formed as the political wing of the Trade Union movement and, until the late 1920s, party membership was confined to card-carrying unionists.

Brendan Corish became the leader of Labour in 1961 initiating a shift in emphasis towards a socialist, go-it-alone, strategy. In terms of organisation and ideology, the party developed during the 1960s and electoral performance improved, especially in the Dublin region. (In 1961 Labour had only one seat in Dublin but by 1969, it had 10.).In 1973 Labour formed a coalition with FG, but the 1977 election saw Labour's worst electoral performance in 20 years: even though it won 17 seats, it only received 11.6 per cent of the votes and Brendan Corish resigned, being replaced by Frank Cluskey. The subsequent years have been bad for Labour which is suffering an erosion of its support to parties of the Left while there is an internal, divisive, debate continuing on the desirability of Labour going into, or being in, coalition with FG.

*Bases of Support*

The problems in determining the composition of party support are twofold: first, few serious studies of the subject have been made and the requisite data were only widely collected in recent years; second, both FF and FG are populist parties receiving support in varying degrees from all sectors. Class divisions have only recently begun to play a perceptible role in Irish politics and the cross-class nationalist issue, of attitudes towards Irish unity, has remained important. Strong family voting allegiances were formed during the 1920s (when the major parties were established) and, given the tendency of children to vote as their parents, such voting patterns still persist. However, recent elections indicate that this situation may be changing with the emergence of a noticeable class vote and a significant floating vote. Some data on party support by class in 1969 and 1977 are given in Table 4.2, while Table 4.3 gives party support by region (as indicated by election returns) in 1973 and 1977. Because of possible survey errors the findings must be regarded as tentative.

Since 1932 FF has never received less than 40 per cent of first preference votes and has twice exceeded 50 per cent (in 1938 and 1977). Its status as the largest party has ensured support from the business sector while its policy of local patronage[13] has gained the support of people in all classes. The traditional bases and solid foundation of FF support were the lower middle class, working class (particularly in rural areas) and small farmers (Table 4.2.).

Table 4.3 shows that FF support was spread fairly evenly and, although 1977 figures were higher than normal, the trend is not untypical of earlier elections. Traditionally, FF support has been strong along the western seaboard, where small farmers are concentrated, and in the three Ulster counties, where republicanism is strong. Its support has been diminishing in Dublin (excepting 1977) with middle-class voters turning to FG and working-class votes going to the Left, but has remained fairly steady in most other regions, except Cork city (which has been similar to Dublin).

The traditional bases of support for FG, inherited from Cumann na nGaedheal, were in the upper middle class, the Protestant community and large farmers. The party had become a populist party, albeit less so than FF, by the 1960s and has never received less than 30 per cent of first preferences since then.

Table 4.2 confirms that FG support was greatest among the middle class (especially the "AB" grouping) and farmers, especially large farmers, but was

13. Patronage, or broker politics, is common to all parties in Ireland; by virtue of being so often in government, FF and its supporters have been the main beneficiaries.

Table 4.2: *Party preference by socio-economic status, 1969 and 1977*

| Class[3] | Party preference (%)[1] | | | | | | |
|---|---|---|---|---|---|---|---|
| | FG | | Labour | | Coalition[2] | FF | |
| | 1969 | 1977 | 1969 | 1977 | 1977 | 1969 | 1977 |
| AB | 37 | 28 | 10 | 4 | 5 | 37 | 40 |
| C1 | 26 | 27 | 15 | 8 | 7 | 48 | 40 |
| C2 | 21 | 14 | 27 | 14 | 9 | 40 | 51 |
| DE | 14 | 12 | 28 | 20 | 5 | 43 | 52 |
| F1 | 46 | 32 | 2 | 2 | 11 | 38 | 40 |
| F2 | 26 | 31 | 5 | 1 | 11 | 53 | 48 |
| *All* | 25 | 21 | 18 | 11 | 8 | 43 | 47 |

*Sources:* Gallup Polls (Dublin) 1969 – in O'Leary, 1979, p. 94.
IMS Surveys, 1977 – in Chubb, 1982, p. 105.

*Notes:* 1 Table gives percentage of respondents in each class who indicated preference for a given party. Totals may not be 100% because Don't Knows, etc.' are not included in table.

2 Respondents who indicated support for Coalition without specifying party preference.

3 Code:

| | | |
|---|---|---|
| *Middle Class* | AB | – Managerial, professional, administrative. |
| | C1 | – Skilled, supervisory, lower non-manual. |
| *Working Class* | C2 | – Skilled manual. |
| | DE | – Unskilled manual and residual (e.g., pensioners). |
| *Farmers* | F1 | – Farmers with over 50 acres. |
| | F2 | – Farmers with less than 50 acres. |

Table 4.3: *Party preference by region, 1973 and 1977 (first preference)*

| Region | 1973 (%) | | | 1977 (%) | | |
|---|---|---|---|---|---|---|
| | FG | Labour | FF | FG | Labour | FF |
| Dublin (city and county) | 32.2 | 22.3 | 40.4 | 27.6 | 17.5 | 46.7 |
| Rest of Leinster[1] | 36.9 | 12.0 | 44.6 | 30.5 | 11.7 | 51.1 |
| Munster[2] | 33.3 | 14.5 | 49.0 | 18.5 | 12.2 | 52.9 |
| Connaught[3] | 39.1 | 3.4 | 51.9 | 37.2 | 2.8 | 52.0 |
| *All* | 35.1 | 13.7 | 46.2 | 30.5 | 11.6 | 50.6 |
| Number of seats[4] | 54 | 19 | 69 | 43 | 17 | 84 |
| % seats | 37.5 | 13.2 | 47.9 | 29.1 | 11.5 | 56.8 |

*Sources:* Nealon (1977); *Administration Yearbook* (1982).

*Notes:* 1 includes Cavan-Monaghan; 2 excludes Clare; 3 includes Clare and Donegal; 4 The total number of Dáil seats was 144 in 1973 and 148 in 1977.

quite low among the working class. Comparing 1969 and 1977, it appears that support for FG rose noticeably among small farmers and slightly for the "C1" class, but fell among all other groupings, especially large farmers and the "AB" class. It should be noted that support for FG (and Labour) is to some extent understated in 1977 because some people favoured Coalition. In the 1980s, FG has gained considerable support among the middle class in urban areas. The traditionally steady support in Leinster may be attributable to the concentration of large farmers in that region.

The nature of the Irish political culture, orientation towards nationalist rather than class issues, the country's socio-economic structure, the appeal of FF among the working class and the frequent divisions within Labour, have all contributed to keeping Labour as a minor party. Until the mid-1960s, Labour's traditional support was in east and north Munster and in Leinster (but not Dublin) and derived from farm labourers (the party's most consistent supporters) and the personal appeal of individual labour TDs. It is only since the middle 1960s that support amongst the working class has grown,-only to fall again in the 1980s.

### *Party Policy on Taxation*

The previous chapter discussed the trends in Irish taxes in general, and looked in particular at those taxes most directly related to the WT. This section considers the statements and actions of each of the major parties on taxation over the same period in order to identify their taxation policies.

#### *Fianna Fáil Tax Policy, 1960-1980*

The initial stance of FF on taxation in this period can be derived from the two government White Papers on Direct Taxation (April 1961 and April 1963) which were a response to the reports of the 1957 Commission on Income Taxation. In the 1961 White Paper the principle of a sales tax was accepted although the purchase tax proposed by the Commission was rejected. The White Paper made no reference to CGT or WT although it stated that Death Duties were justified by the desirability of taxing capital and the fact that inheritance was amongst the major causes of inequality. The general FF view was against direct taxation:

> . . . the fiscal policy of the Government would be guided primarily by the need to encourage production and saving and, in particular . . . their aim was to create conditions permitting as soon as possible a reduction in direct taxation. (White Paper, 1961, p. 15).

In a move claimed as being a change from normal policy, the rate of

company taxation was increased in 1963. Nevertheless, considerable emphasis was placed on indirect taxes for generating revenue and, in November 1963, a Turnover Tax of two and a half per cent on most goods and some services was introduced.

Fianna Fáil campaigned in the 1965 election on the basis of their record in government and the Second Programme for Economic Development, which emphasised indirect rather than direct taxation. Such a policy was adhered to when in October 1966 a Wholesale Tax of 10 per cent was introduced, to be levied on "non-essential" goods in addition to Turnover Tax. Charles Haughey, then Minister for Finance, reiterated FF's attitude to taxation at that time:

> Reliance will continue to be placed chiefly on indirect rather than direct taxation on the ground that taxation of expenditure has less of a disincentive effect on economic activity. . . . It discourages excessive spending but not earning or saving. The corresponding moderation in the taxation of income is a stimulus to individual and corporate effort. (Budget 1968, p. 21).

The tax changes during his period of office (1966-70) seemed to accord with this policy and concessions were made in direct taxes (which generally favoured those on higher incomes) while indirect taxes were periodically increased by more than the rate of inflation. The two budgets of his successor, George Colley, in 1971 and 1972, maintained this policy with the provision of a variety of concessions for direct taxes whilst raising indirect taxes. In 1972 VAT was introduced to replace Turnover and Wholesale Taxes.

The debates on capital taxes in 1974 and 1975 indicated that basic FF policy remained unchanged in opposition; they opposed direct taxes, especially capital taxes, as being a disincentive to saving and investment. On re-entering government in 1977, FF had a policy of stimulating growth through tax cuts which would also provide the basis for lower wage settlements. The Party Manifesto for 1977 promised to increase personal allowances significantly, abolish domestic Rates and provide concessions for farmer taxation, and these were implemented. Other changes included raising CAT thresholds, tapering CGT and increasing Corporation Tax thresholds.

Considering the period as a whole, FF were a party which consistently stated a preference for indirect over direct forms of taxation. However, as has been shown (Table 3.4, p. 41) indirect taxes as a share of total taxation fell significantly, whilst income tax increased its share appreciably, over the period. Effectively, FF allowed the burden of income tax to increase, both relatively and absolutely, by default (since allowances were not increased in line with the rise in earnings). The relative share of corporate and capital

taxes fell indicating the manner in which FF policy may have favoured industry and the wealthy. (However, there was a rise in employers' social security contributions.) Thus, there is evidence that the actions of FF on taxation failed to conform to their rhetoric. Their most consistent policy was opposition to capital taxes.

*Labour and Fine Gael Tax Policy, 1960-1980*

For all but four years of the period 1960-80, Fine Gael and the Labour Party were in opposition and their tax policies are more difficult to assess because statements cannot be directly related to actions. However, it has been found that parties in the UK tend to formulate the genesis of tax policy whilst in opposition (Robinson and Sandford, 1983). Except for the period of the Coalition Government of 1973-1977, when actions can be assessed, the main outline of the tax policies of the parties is derived from their published statements and, in particular, from election manifestos. Both parties are considered together because their policy towards taxation is most clearly identified for that period when they formed a Coalition government.

Fine Gael did not present any explicit policies on taxation during the elections of the 1960s. In 1961 they argued for a review of the income tax system and a reduction in the burden of Rates. The FG pamphlet "Winning Through to a Just Society" was the basis of their campaign in the 1969 election. It proposed a range of ideas to aid industrial relations, including tax incentives to encourage profit-sharing with workers and a dividend equalisation tax to keep profit growth in line with controlled wage growth under an incomes policy.

In 1961, Labour proposed to reduce indirect taxes so as to alleviate the tax burden on the poor and, by 1965, they advocated the taxation of capital gains and a system of taxes on inheritances and gifts (to replace ED). In the 1969 election Labour tax policy was based on the programme drawn up by the party's National Conference (January 1969). This programme stressed the need for more equity in the tax system and for a redistribution of wealth. The Party proposed a high CGT, a Wealth Tax, the extension of income tax to a larger number of farmers, the imposition of a flat rate of company tax while including dividends as personal income, a less regressive VAT system, the replacement of Rates with a tax on property from which income was derived and greater progressivity in the PAYE tax system.

In the period 1960-73 FG, unlike Labour, had never expressed a clear policy on taxation. When the election campaign began in early 1973, FG favoured the abolition of ED and an annual impost on wealth was suggested as the form of tax to replace the ED. This is about the extent of tax policy that can be clearly attributed to FG prior to their pre-election negotiations

with Labour. The "14 point Programme" (Statement of Intent published by the National Coalition on 7 February 1973) included a number of taxation proposals:

1 To abolish Estate Duties and replace them with a tax on the very wealthy and on property passing, on death, outside the immediate family.
2 To curb the speculation in both building and farming land and to ensure that any profits from such speculation are taxed.
3 To reduce Rates by transferring local authority health and housing charges to Central Government.

All of these policies were enacted by the Coalition in government: ED was abolished and replaced by the WT (1975) and the CAT (1974/75); the second proposal was accomplished through the CGT (1975); and Rates were reduced. The first two proposals can be clearly related to Labour policy dating back to the mid-1960s while only the proposal on Rates can be identified as a clearly stated long-standing FG policy. It also seems likely that the notion of some form of WT was acceptable to members of FG prior to the Coalition negotiations. These observations suggest that Labour exerted considerable influence on the direction of the Coalition's tax policy, a belief supported by looking at other tax reforms enacted by the Coalition: a scheme of farmer taxation was introduced in 1974; a single rate Corporation Tax was introduced in 1976; and PAYE tax rates and bands were altered throughout the period in a manner roughly in line with the Labour proposals of 1969, except that effective rates rose.

The core of Coalition tax policy was to make the tax system more equitable and this was to be achieved in a number of ways. First, it was proposed that the burden of indirect taxes be reduced (and the 1975 mini-budget should have achieved this for the poorest). Second, capital taxes were intended to increase equity but the concessions granted and the falling proportion which capital taxes contributed to tax revenue (Table 3.4) made the achievement of this goal doubtful. Regardless of whether or not the system as a whole was made more equitable, it certainly became more burdensome (Table 3.4).

In the 1977 election the Coalition parties campaigned together on their taxation record, proposing to lower personal and corporate taxes while maintaining capital taxes. In opposition after 1977, the parties developed separate policies. Labour supported capital taxation (including WT) and higher taxes on profits while FG abandoned the WT and began to study a tax credit scheme. In summary, Labour consistently favoured a progressive system of direct taxes with emphasis on capital taxes. Fine Gael, while committed to reform and equity, only developed a tax policy from the

Coalition period and have modified the approach adopted at that time.

### *The Political Environment*

The political environment can be seen to be relevant in two ways. First, there are the political influences leading to the introduction of a WT. Opposition to ED was a central issue in generating the WT; another factor was the media coverage of Lyons' studies on wealth distribution in Ireland. Second, the political environment is relevant to an assessment of possible political after-effects of the WT, e.g., the possibility that the WT caused a loss of support for FG in the 1977 general election. The link which both unites and underlies these two issues is the basis of support for the parties, which influences a party's perception of how a policy may affect its electoral performance. The first part of this section considers the impact of the studies on wealth distribution. The second part analyses the electoral performance of the parties in 1973 and 1977.

#### *Distribution of Wealth: Media Coverage*

The most comprehensive study on the distribution of wealth in Ireland was that by Patrick Lyons (at that time a lecturer in Economics at Trinity College, Dublin) the results of which were presented in a number of publications (Lyons, 1972a, 1972b, 1972c, 1974, 1975). The principal results of his publications, and the limitations of the methodology used, are set out in Appendix C. In this section, discussion is limited to the media coverage of the results which, while extensive, was generally distorted.

The first of Patrick Lyons' papers to receive media attention (Lyons, 1972a) was reported in the *Irish Independent* (29 January 1972) under the headline "Five per cent own two thirds of wealth". *The Evening Press* of the same date led with "Top 5 have 71 per cent". Both reports made similar comments on Lyons' findings emphasising that in the Republic the top five per cent of the population owned 71 per cent of the wealth while almost 65 per cent had no wealth at all and that Lyons showed the distribution of wealth to be more inequitable in the Republic than in Northern Ireland. An editorial in *Hibernia* (17 March 1972) argued that Lyons (1972a) had shown, using a well established method, that there was an exceptionally high degree of privilege in Ireland. This inequality was allowed to survive, the editorial argued, because successive conservative governments were able to maintain electoral support by concentrating on the emotional issue of Irish unity and could therefore afford to neglect all but token social reforms.

Professor Louis Smith (*Irish Independent*, 25 March 1972) criticised Lyons' (1972b) work as exaggerating the degree of inequality, principally by

underestimating the value of land (as did the revenue authorities) and of small estates which were not liable for Estate Duty, while the number of people assumed to have no wealth (65 per cent of total) was excessive. Mr H. Robinson (Chairman of the City of Dublin Bank) also criticised Lyons (1972b) in an article in the *Irish Times* (28 June 1972), citing the deficiency of Estate Duty returns in analysing wealth distribution and pointing out that many of the estimates for particular assets did not tally with other means of estimating the value of such assets. He concluded that there was more wealth in the country than Lyons estimated, and that it was more evenly distributed.

In a reply to Robinson, Lyons (*Irish Times*, 30 June 1972) defended his methodology and pointed out that many large estates were undervalued for Estate Duty (see Appendix C). There was general acceptance of Lyons' results in the media and, of about eleven reports in 1972, only two (above) criticised Lyons. An article in *Business and Finance* (30 March 1972) accepted that Lyons presented a fairly accurate picture of the high degree of inequality of wealth distribution in Ireland despite the limitations of his methodology.

Lyons' research did not receive much coverage after 1972 but an editorial in *The Kerryman* (15 September 1973) summarised the general impression given by the media:

> There is substantial inequality in the distribution of wealth in Ireland. Professor Lyons has done a most valuable public service in drawing attention to it. He has done so . . . without much heed being paid to his words. We hope he will keep on saying them.

The media coverage of Lyons' work brought the issue of wealth distribution to the attention of the public. It seems reasonable to assume that political points would have been gained from proposing a WT at that time and, at least, the media publicity would have lent weight to those supporting the introduction of a WT. Although the inequality in wealth distribution received very little media attention at the time the WT was being debated (February 1974-July 1975), the issue had not been forgotten[14] and has been recalled as recently as 1984.[15]

*Electoral Swings 1973 and 1977*

A number of politicians, particularly in FG, have argued that the WT led

14. See speech by Senator Halligan on WT (Seanad Debates, 31 July 1975).
15. See speech by Mr MacGiolla, President, in his address to the Workers' Party Ard Fheis, 1984 (*Irish Times*, 30/4/84) although he misquotes the source.

to an erosion of FG support in 1977 and was a primary cause of their election failure. To investigate this claim the election results of both 1973 and 1977 must be considered. A number of factors weakened FF in 1973. In the first place, the party had experienced an internal division in the early 'seventies. Second, the economic boom of the 'sixties had run out of steam in the early 'seventies and unemployment and inflation were rising. In the 1973 election, FF did not present any clear manifesto explaining how they would attack these problems. Finally, it seems likely that after 16 years of FF government the public were amenable to change. On their part, FG and Labour presented a detailed manifesto of what they would do as a coalition government. Members of both FG and FF have said that a significant element in the manifesto was the promise to abolish Estate Duty which ensured a substantial farmer's vote for FG.[16]

Despite the apparent explanatory value of these arguments, the actual evidence does not fully support them. FF actually increased their share of first preference votes in 1973 (from 45.7 per cent in 1969 to 46.2 per cent) while Labour's share fell to 13.7 per cent. Farmer support might explain the increase in FG's share from 34.1 per cent to 35.1 per cent. What was most significant in regard to the 1973 election was the manner in which votes transferred into seats[17] (see Table 4.3) with the Coalition parties benefiting *vis-à-vis* FF. Labour gained one seat, FG gained four and FF lost six (Blaney was elected but did not stand for FF). Thus, the real explanation for the Coalition victory was the efficient transfer of voting preferences between the Coalition parties. The solidarity of transfers between FG and Labour was almost as high as internal transfers within FF (Gallagher, 1982, p. 193). The unusually high level of transfers between two parties may well have reflected a public desire for change.

It was not a quirk of the electoral system which brought FF back into power in 1977, as their share of votes rose significantly while FG and Labour lost votes (Table 4.3). The real losers were FG who lost 11 seats although their share of the vote declined by just less than five per cent. The media in general were surprised by the result as they had not given FF more than 70 seats.[18] There were a number of factors of importance in 1977. One, which was probably under-rated at the time, was that the public did not favour Liam Cosgrave as a leader. In an *Irish Times* NOP poll published shortly before the election, 44 per cent of the respondents considered

16. These comments were made in interviews. It was also stated that Jack Lynch declined to promise farmers that FF would abolish Estate Duty if re-elected.

17. For details of the working of the Irish electoral system, see O'Leary, 1979.

18. Mr Lynch had forecast that FF would win 77 seats (O'Leary, 1979, p. 89).

Cosgrave as a good Taoiseach, but 73 per cent favoured Lynch (O'Leary, 1979, p. 89). A second factor was that the 1977 election was fought primarily on economic issues and FF, having learned from their mistakes in 1973, published a comprehensive manifesto immediately the election was announced. The same NOP poll showed that FF had greater support on economic issues whereas the Coalition had a narrow lead on social issues and national security.

There were two central economic issues under debate, unemployment and taxation. The Coalition had no clear response to FF's promise to provide thousands of jobs and lost support on this issue, while the variety of tax concessions in the FF Manifesto was guaranteed to generate support. The promise to abolish Rates on domestic property probably influenced the large swing to FF in Dublin. Even ignoring this effect, the increase in the burden of taxation while the Coalition was in office would have caused a loss of support, especially among the middle class. The imposition of farmers' taxation, and to a lesser extent the WT, were significant in explaining the large swing against FG in Leinster and Munster.

Any comparison between the 1973 and 1977 election results (Table 4.3) on a comprehensive basis is limited by the significant constituency changes which were made in the interim. Notwithstanding this, a number of observations on farmers' votes can be made, keeping in mind the FG bases of support. The FG vote held up best in Connaught, an area where the predominant farming community would, relative to other regions, have been least affected by the introduction of farmer taxation and WT.[19] The largest swing against FG was in the "rest of Leinster" which includes the counties of Kildare and Meath, where many wealthy farmers reside.[20] In fact, Kildare was one of the four constituencies where FG failed to win any seat. North Tipperary was another (and also an area with rich farmland) and was evidence of the swing against FG in Munster. It was also significant that the major farming organisations, among whose members support for FG was widespread, strongly opposed the WT and farmer taxation. It seems reasonable to claim that the introduction of farmer taxation, and to a lesser extent WT, eroded FG support among farmers and resulted in a loss of votes and, more significantly, seats. There were also suggestions that FG lost financial support.

19. The province of Connaught included three of the four poorest counties in Ireland (Lyons, 1972c) and would also be an area where small farmers, among whom support for FG rose (Table 4.2) were prevalent.

20. Leinster was the wealthiest province, with Dublin and Meath the wealthiest counties and Kildare close to them, according to Lyons (1972c). These areas would have had many large farmers, amongst whom support for FG fell (Table 4.2).

Although Labour's share of the vote was reduced and they lost two seats, they did not fare as badly as FG and had been losing support since 1969. The recession of the mid-'seventies, and association with FG in Coalition, lost support for Labour. Although the party had some success in getting its policies accepted by FG in Coalition, for example, Labour was satisfied with the performance on taxation (Gallagher, 1982), it seems likely that their presence in a Coalition was electorally damaging. Table 4.2 indicates that few people in 1977 supported a Coalition as a form of Government.

### *Summary*

Chapter 3 demonstrated how party policies influence, and are influenced by, economic circumstances. In this chapter some of the other influences on party policy have been discussed: the nature of the party and its supporters, which helps to establish party attitudes or ideology; topics under public debate, such as wealth distribution or Estate Duties, which may lend support to particular policy options; and perhaps most importantly, the constraints of aspiring to electoral success. If a party policy meets with public disfavour – especially among erstwhile supporters – so that it is deemed to be responsible for a subsequent electoral failure, then the party is likely to reject the policy in future. All of these factors influence party policy but how far they determine it depends on the policy-making structure within the parties. This structure, and how it operates in practice, is the subject of the next chapter, while the two following chapters address other vital influences on the formation of policy – the activities of interest groups, the role of Parliament and the media and the part played by the Civil Service.

## Chapter 5

## *TAX POLICY MAKING IN THE POLITICAL PARTIES*

The previous chapter identified the economic and political factors which influenced Labour and FG to conceive and introduce the WT, and which help to explain why FF remained so strongly opposed to it. The present chapter examines how policy on the WT was actually formulated within the parties. Thus, it looks in detail at policy making in the Coalition Government and also analyses FF methods of policy making in opposition.

The first part of the chapter describes the official structures of each party to show where policy should originate and which organs have power to decide party policy according to their constitutions. The second part of the chapter evaluates the organisations by examining how party policies on WT were actually formulated.

### *Party Structures*

Each party has a written Constitution and set of rules which set out the powers and responsibilities of the various elements in the party structure or hierarchy. Fine Gael publish their Constitution in the form as enacted by the Ard Fheis (annual delegates conference) of 1978 (as amended in 1979 and 1982) and Labour's Constitution is available as adopted by the National Conference of 1978.[21] The FF document, *Coru agus Rialacha*, is more elusive and the description below is based on extracts from the 1972 document reprinted in Chubb (1983).[22]

#### *Fine Gael*

The sub-national units of organisation are the Branch (at the local level), the District Executive (Branch delegates plus elected local government representatives) and the Constituency Executive (Branch delegates plus all elected local and national representatives for the constituency). These bodies have responsibility for organisation, fund-raising and elections but are not formally given a role in policy making. The National Council, consisting mainly of delegates from each Constituency Executive, may discuss any urgent

21. These constitutional documents post-date the WT but, in terms of the Party structures and distribution of powers, they are not significantly different from those prevailing in the early 1970s.

22. This document was requested from FF headquarters; the authors were informed that it was not available to members of the public.

policy issue which cannot reasonably await the next Ard Fheis, and may advise the National Executive or Front Bench on the issue. (This power was not made explicit in the constitution in force in 1974.)

The National Executive consists of 29 elected members (12 elected by the Ard Fheis, nine by the Parliamentary Party, and the remainder by other Party organs) and the National Officers (mostly elected by the Ard Fheis, but of whom at least three are appointed on the proposal of the leader of the Parliamentary Party). The National Executive is responsible for the normal running of the organisation and has the power to establish committees of its members to study specific issues of policy. According to the Constitution, the apex of the party structure is the Ard Fheis which is a gathering of officers and delegates from all Party units and all elected representatives of the Party. It elects a number of Party officials and votes, generally by a show of hands, on policy issues and is the governing body of FG. The agenda for the Ard Fheis is decided by the National Executive.

An alternative apex of the party structure, though not so described in the Constitution, is the Parliamentary Party comprising all Party members who are elected to the Dáil, Senate and European Parliament. The leader of this body, in opposition, is authorised to appoint the shadow cabinet, spokespersons and whips, and has significant influence in the appointment of Party officers. It is specified that "the business of the Parliamentary Party shall include issues of policy, parliamentary tactics and disciplines" (Rule 49(ii).).

*Labour*

The local units of organisation in Labour are similar to those in FG in all but name with branches at the local level and Councils at divisional, constituency and regional levels. Ultimate control of the Labour Party lies with the annual National Conference consisting of delegates from all branches and corporate members (affiliated Trade Unions), the number of delegates depending on membership, with one delegate each from the various councils. The Conference decides the content of the Party Programme but the Administrative Council, in consultation with Labour TDs, determines the Election Programme.

The Administrative Council controls the organisation and administration of the party and is composed of the party officers, six members of the Parliamentary Party elected from amongst themselves and 17 members elected by Conference. The six party officers (three elected by Conference) include the Leader and Deputy Leader of the Labour Party in Dáil Éireann and the Party Secretary who is appointed by the Council. The Council has the power to establish committees to examine any issues on which it seeks

information, can publish specific party policy proposals, and supervises the Conference agenda. The Parliamentary Labour Party is frequently referred to but its role in policy making is not defined.

*Fianna Fáil*

The basic units of FF are similar to those of other parties. The district and constituency organisations are expected to "arrange public meetings, conduct propaganda and collect funds" (Rule 32(c)), to supervise Cumainn (branches) and select candidates for elections. The Ard Fheis is "the supreme governing and legislative body of the Organisation" and consists of two delegates from each party unit, all elected local and national representatives and members of the National Executive. It has the power to vote on issues of party policy. The Executive, which decides where, when, under what procedures and with which motions the Ard Fheis meets, is the supreme governing body between Ard-Fheiseanna but . . . "save in exceptional or unforseen circumstances, shall not have the power to alter, or amend, or ignore any decision of the Ard Fheis" (Chubb, 1983, p. 137).

The FF constitution makes no mention of the Parliamentary Party nor of its role and function within the party structure. The Parliamentary Party has neither its own Constitution nor any established standing orders. Despite (or even because of) this lack of definition the leader of the Parliamentary Party can have considerable influence.

### *Party Policies on Wealth Tax*

Although the terminology and emphasis may vary, the organisational structures of the three main political parties are essentially similar and all attribute the ultimate ratification of party policy to the annual delegate conferences. However, none indicate where policy initiation and development should occur and, in all cases, the lower units of organisation are not given a role in policy making. Furthermore, with the possible exception of FG, the policy role of the Parliamentary Party is vague. As one of the most experienced commentators on Irish politics has observed:

> The resolutions of these Conferences [Ard Fheiseanna] are no more than guides to party opinion for the attention of the policy and decision makers who are in fact the leaders of . . . [the Parliamentary Party], perhaps reinforrced with a few members of the central executive committee not in the Oireachtas. . . . [These leaders take the] . . . initiative in devising and proposing policy. . . . [But] The rules do not give this impression. (Chubb, 1983, p. 133).

Our study allows us to try to identify the central core of policy makers on the WT issue. While there were differences in the approaches of FG and Labour, because both acted as part of a coalition in introducing the WT they will be treated together.

*The Coalition*

The Labour Party were overtly associated with the notion of a WT from 1969 when the Party programme included a recommendation for an annual levy on both real and personal wealth so as to reduce inequalities in ownership. The Party also proposed to undertake research into the degree of inequality in the distribution of income and wealth. There is no evidence that Labour ever did so but they may have felt that Lyons relieved them of the duty. Lyons' work lent considerable support to Labour's commitment to redistribution, provided easily quotable statistics and encouraged the party to think more seriously about a WT.

The General Secretary of the Labour Party, (Brendan Halligan from 1968 to 1982) was the Party member with most responsibility for policy formation and many of the Party's tax proposals developed in 1968-73 have been attributed to him. In the determination of Party policy the General Secretary worked within a committee of six officials (including the Party leader and his deputy), whose policies had to be ratified by the National Conference. Since Labour was not a homogeneous grouping, such ratification was not automatic. Brendan Halligan was the principal writer of the Labour Manifesto of 1973 and one of their representatives in negotiating the coalition joint platform. The Labour Party had no research department and although they proposed a WT and a tax on capital appreciation they would not have been aware of the full implications of these taxes.

Like Labour, FG began to develop a coherent party policy during the mid- to late 1960s. The "Just Society" policy which emerged was Social Democrat in leaning but failed to get full support from the conservative core of the Party. The principle of a WT would not have been out of place in this policy but, in fact, FG policy contained no specific references to taxation. However, by 1973, FG were committed to abolishing ED. The Parliamentary Party accepted this measure as an election policy, but had no clear idea of the form of tax to replace ED.

When it came to negotiating the coalition joint programme both partners found the idea of a WT acceptable. However, their conception of the rationale behind such a tax may have differed with FG seeing it as a replacement for ED while Labour conceived of it as part of a package of capital taxes designed to promote equity and redistribution. The essential issue for Labour was capital taxes, while for FG it was national security, and there appears to have

been general agreement on other areas of joint policy. One commentator has claimed that it only took an eight-man team a few hours to reach an agreed coalition manifesto from a Labour draft and continued

> Three matters were agreed privately and not included in the manifesto. First . . . a wealth tax would be introduced – this was strongly hinted at in the manifesto but not made explicit. Second, farmers were to be brought into the income tax net. Third . . . a Coalition government would not repeal the December 1972 Offences against the State legislation". (Gallagher, 1982, p. 191).

The Manifesto, which was approved by Labour's Administrative Council and Parliamentary Party and endorsed by all FG TDs (Gallagher, 1982), included a specific promise to abolish ED and replace it with an annual tax. There are two possible reasons why no explicit reference was made to a WT. One is that the two partners did not agree on the nature and meaning of the tax proposal (and neither party had the resources to undertake research into what a WT would imply). The other is that FG may have suspected that proposing a tax on wealth could lose them support.

While Corish had full discretion in deciding which Labour TDs would receive Government posts, Cosgrave took advice from some of his front bench and close advisers but made the final decisions himself (Gallagher, 1982). The biggest surprise to many people was that Richard Ryan, and not Garret FitzGerald, was appointed Minister for Finance – the apparent reason being that Cosgrave favoured Ryan, who did not personally desire the Finance portfolio, as a person closer to the core of party thinking. However, FitzGerald had been spokesman on finance and retained influence in that area of Cabinet activity despite being Minister for Foreign Affairs at a time when accession to the EEC kept him frequently abroad.

Although Cabinet ministers tended to approach issues as individuals rather than as members of a Party block, the Coalition Government displayed remarkable unity. This achievement was a credit to the chairmanship of Cosgrave. Unlike previous governments the coalition made extensive use of Cabinet sub-committees for discussing individual policy areas, partly because the travel requirements of EEC membership meant that it was difficult to assemble the full Cabinet at any one time (Gallagher, 1982). One such cabinet sub-committee was established to supervise the development of the Capital Taxation policy and included Garret FitzGerald, Richard Ryan, Mark Clinton and Justin Keating.

When a party enters Government, policy making ceases to be a party issue and becomes a Government matter – party backbenchers in Ireland play little or no role in the determination of Government policy. With a single

party Government, one could expect that predetermined party policy would guide the general direction of Government policy, whereas the details would depend on the Cabinet and Civil Service. In the case of a coalition, the various parties may have distinct ideas on policy such that Government policy is determined by way of political compromise, a process which may reduce the influence of the Civil Service. On the other hand, the influence of the Civil Service might be expected to be greater the less clear were the Government's own policies. The politicians, even those on the sub-committee, had only a limited idea of what a WT implied (see Chapter 7).

The WT was a political issue and the decisions in regard to the shape of the tax were taken by the politicians. While the Department of Finance favoured a reform of ED, the FG party was under pressure to keep its promise to the farmers; therefore, ED was abolished. The politicians presented the idea of a WT, the Department of Finance and the Revenue Commissioners (hereinafter referred to as the Revenue) gave the idea substance in the White Paper, but this was not a simple process. Within the sub-committee the WT proposals were not accepted by all and this division was even more pronounced in the Cabinet. Dr FitzGerald was a strong advocate of the WT, committed to the principle, who played a key role in guiding it into existence. Labour were satisfied that the tax was being introduced and were content to be passive as long as they were sure it was going ahead, but any attempt to shelve it would have been resisted by them.

The White Paper was drafted by the Department of Finance, then discussed by the sub-committee and presented to the Cabinet where it was narrowly accepted. It would appear that few members of the Cabinet expected the hostility which greeted the WT proposals in the White Paper and the subsequent lobbying of Ministers was phenomenal, especially from farmers and industry (Chapter 6). In all, the Minister for Finance received representation from over 150 organisations and about 500 individuals and met at least 20 delegations from various organisations. While the Department of Finance desired a simple WT with few exemptions and reliefs (Chapter 7), the Cabinet provided for concessions in response to the powerful lobbies. The position of FG was delicate given their bases of support amongst the wealthy, especially wealthy farmers, so that they felt politically obliged to soften the White Paper proposals. Furthermore, a number of FG backbenchers, who would not have been aware of the proposals until their publication, were also opposed to the WT and presented their views at Parliamentary Party meetings or in individual contacts with the Ministers. The outcome of these pressures was a speech to the Confederation of Irish Industry (CII) on 15 May 1974, in which Richard Ryan announced a number of significant modifications to the WT proposals: the rates were reduced to a single one per cent, thresholds

were increased and a number of exemptions were provided including the unique exemption of principal private residences.

Intensive lobbying continued and played an important role in determining the nature of the further reliefs included in the Wealth Tax Bill as presented to the Dáil on 5 March 1975. This Bill was essentially the final form of the Government's WT proposals. There were only a few further modifications, mostly technical, as it passed through the Houses of the Oireachtas (Parliament). The Cabinet decided the basic principles of the WT, in particular which assets would be exempted or receive relief, and submitted their proposals to the Department of Finance which then drew up the headings for the Bill and the details of the proposed WT. The final version, taking account of legal and technical details, was prepared by the Parliamentary Draftsman. Responsibility for guiding the Bill through the Dáil lay with the Finance Minister, and it was essentially he who decided if any amendments would be accepted, although the Department of Finance officials advised him on technicalities.

A number of points can be gleaned from this discussion of the formulation of policy on the WT. First, the WT was not a clearly thought-out policy which the Coalition implemented on attaining power. Although Labour favoured a WT, the tax developed as a response to the need to replace the revenue lost from abolishing ED. Secondly, the responsibility for the WT did not rest with one person or Party: the tax was developed within a process of compromise and consultation involving the Minister, Cabinet (especially the sub-committee), Civil Service and interest groups. The WT was not ratified by the FG Party as a whole nor did it develop through the official party organs. Finally, the Oireachtas had little influence on the outcome (see Chapter 6).

*Fianna Fáil*

Policy making in Government involves two issues, policy formulation (which may involve the party structure initially but not thereafter) and policy implementation (where the influence of the bureaucracy is most pronounced). A party in opposition is concerned only with policy formulation, which can be of two basic types, not wholly distinct. First, the opposition party may try to develop its own individual policies. Alternatively, it may concentrate on formulating reactions to Government policies and actions.

Since FF had been in Government for so long, the party policy-making structure was underdeveloped and untested in 1973, the policy makers (i.e., the Cabinet) were advised by the Civil Service, who provided them with relevant information; there was little need for party research. In opposition,

FF set about the task of building a party policy structure which consisted of two basic units, committees and advisers. A number of committees were established, composed primarily of members of the Parliamentary Party, to discuss individual policy areas such as finance (including economic and taxation issues), education and social issues. A few specialists within the party structure could be seen as advisers (e.g., Professor Martin O'Donoghue was economic adviser to Jack Lynch from the early 1970s and also advised George Colley) but the Party also built up a network of supporters or sympathisers who were available to offer expert advice on specific areas of policy. This group of voluntary advisers, who came from various walks of life (e.g., banks, business, professions), became known as the "think tank".

The apex of the policy-making structure was generally the Shadow Cabinet where each spokesman would be expected to be the prime mover in his own area. Thus, the initiation of the FF response to capital taxes came from George Colley, acting closely with Jack Lynch and Martin O'Donoghue. These three considered the proposals in the White Paper and sought advice from members of the "think-tank" regarding the likely effects and implications of the proposals. People in the banking community suggested to FF that a WT would incite a capital outflow while members of the business community suggested that it would be a disincentive to investment. Once the basic response was formulated, the spokesman on Finance (Colley) presented the issue to the Shadow Cabinet where it was discussed, with the principal emphasis being on general issues, as the majority of members lacked knowledge on technical issues. It was usually, but not necessarily, the case that the Shadow Cabinet accepted the recommendations presented by the spokesman.

The issue then went to the Finance Committee and it was here that backbench TDs, who were on the Committee, could express their views, which were generally based on personal opinion and knowledge or on constituency feedback. Opposition TDs were actively lobbied by wealthy constituents and interest groups. Whether the policy would be developed in the Committee depended very much on the individuals involved. George Colley had considerable expertise in the area of taxation so that his views were generally accepted by most members. People such as Major V. de Valera, who was experienced in legal matters, would have been able to provide an influential input on technical or legal details. As a general rule, the most influential members of a Parliamentary Party tended to be those with a background in law or accountancy, because of their training and the feedback from clients.

The final forum for discussion was the Parliamentary Party but, by this stage, the Party response had been determined and was only being presented for ratification. The Parliamentary Party generally accepted the policy presented to them, although there might be dissenting voices (usually members

who felt that the proposed policy would not be well received in their constituency). The final FF decision, actively to oppose the WT, was consistent with the belief of many in the Party that Ireland was a small, not fully developed, economy in which the role of Government was to provide incentives for the generation of growth, wealth and employment.

The essential point is that it was a small group who determined policy: the Shadow Cabinet and Finance Committee exerted some influence; the Parliamentary Party had little if any input and the Ard Fheis had no connection whatsoever. There is nothing unusual or surprising about finding that the Ard Fheis had no input, nor that backbenchers had little influence, as the WT was a specific, and relatively minor, issue. One would expect that the Party as a body would only play a role in determining broad issues of policy and, in particular, election manifestos.

The first major election manifesto from FF was that of 1977. The economic policy of this manifesto was drawn up by a small group within the Party, the key people-being Lynch, Colley and O'Donoghue, and was discussed by the Shadow Cabinet before being accepted by the Parliamentary Party. The foundation of this policy was a programme to reduce inflation and unemployment by lowering the rate of wage increase and providing a package of investment incentives to stimulate growth. The cornerstone of this policy was tax concessions: a reduction in income tax and Rates would underpin attempts at wage moderation; tax concessions to the wealthy and business community would provide an incentive for renewed investment. The manifesto did not include a promise to abolish a WT, perhaps out of concern that it would lose working class votes, but the abolition of WT was in line with FF economic strategy.

The determination of the broad economic policy for the 1977 election had minimal input from backbenchers and none from the Ard Fheis. The National Executive of the party is only concerned with matters of party organisation and has no input into policy and, generally, the Ard Fheis does not contribute to policy formulation (which is logical given its size) and need not even play a role in discussing policy. Party headquarters vets and selects the motions presented to an Ard Fheis and determines their general form. The general effect of this process is to ensure that policies pre-determined and favoured by the Front Bench secure ratification.

When FF were elected in 1977 their commitment to abolish WT was assumed by many but had not been stated openly and the official line was that the Capital Taxes were under review (Dáil Debates, 24/11/77, PQ.27). Revenue officials supported the WT, despite their initial reservations, because it was felt to be working reasonably well by then and it yielded information relevant to other taxes. They argued for its improvement, initially receiving

support from Jack Lynch. However, Colley abolished WT in his 1978 Budget on the grounds that it generated a capital outflow, discriminated against Irish persons and reduced business confidence (see Chapter 9).

### *Party Policy Making*

The study of the WT illuminates certain aspects of the policy-making process. Although it can be dangerous to generalise from a single case, the interviews included broad questions about the policy-making process so that it is possible to conclude this chapter with a general review of the process of policy formulation within the political parties. Party ideologies and bases of support differ, but the policy process is broadly similar, the prime distinction being whether or not a party is in opposition or in government.

Policy initiation is usually motivated by party members, generally Front Bench, who are interested in a specific area, although the ideas may have come from outside. None of the parties has a formal research unit but senior members may have advisers and the parties generally have access to a network of experts in various fields, and may commission outsiders to report on specific issues. Once the basis of a policy is accepted, its development is delegated to a small unit, often an established committee, chosen by the leader. The Front Bench discuss any policy outline before it goes to the Parliamentary Party which ultimately has the power of ratification or rejection but generally exerts little influence. The Ard Fheiseanna are basically publicity exercises with little relevance to policy making, the exception being Labour's National Conference which often involves debates on major aspects of party policy (the most common being whether or not the party should be in Coalition).

The development of a party's response to government policy is essentially the responsibility of the relevant spokesmen and committees with an input from the shadow cabinet. The single most important person is the leader, who selects the Front Bench and has an effective veto on policy options, but the way in which this is realised in practice depends on the personalities and issues involved. Backbenchers may exert some influence when policy proposals are being discussed in committees or by reporting constituency feelings.

Once a party is in government, the party role in policy formation is less pronounced. Party backbenchers exert very little influence on government policy but are in a position to criticise policy and occasionally Ministers resign from a Cabinet so as to avail themselves of this opportunity. In government, the Ard Fheiseanna have no policy role and are expected to support and endorse the leadership although Labour is something of an exception to this generalisation. Party policy formulated in opposition tends to undergo

considerable change before it becomes implemented as government policy. The Cabinet provides the direction and makes the final choice but the Civil Service provides substance and details while interest groups are adept at gaining concessions. The end result may be far from the initial intention, as was the case with the WT.

A further consideration of the role of interest groups and of the Civil Service in the WT is presented in the next two chapters.

Chapter 6

## *PRIVATE PRESSURES AND PUBLIC DEBATE*

This chapter seeks to identify the role played by interest groups in the development of the WT and to assess the input of the Oireachtas (Parliament) in formulating the Wealth Tax Act (1975). It also examines the role of the Press.

### *Interest Group Theory*

The term interest group can be taken as meaning any group acting within the political system so as to exert influence on the government, in its broadest sense (executive, legislature, administration and judiciary), in order to realise certain goals of the group.[23] Many forms of interest groups can be distinguished according to characteristics such as structure, goals, homogeneity of members and methods of operation. The extent and range of interest group activity in Ireland has increased perceptibly over the last 15 years (McNamara, 1977) with the major groups becoming more organised and perhaps more influential. However, there are differing views as to how much influence such groups exert on the policy-making process.

Walkland (1968) has argued that the role of interest groups is to aid in obtaining consent for policies decided by government, as distinct from determining such policies. Groups can most effectively exert influence in that period after the government has decided to introduce legislation but before the Bill is drafted — in other words, interest groups are active "behind the scenes" in discussions with cabinet members and civil servants, and do not devote much attention to members of the legislature. In this model, interest groups are seen not so much as being capable of obtaining individual concessions as of providing information taken into account in the formulation of policy. Discussions with interest groups help to ensure consensus, but do not influence the directions or principles of policy.

A more widely held theory sees policy making as a process in which the views and demands of interest groups are accommodated in, if not a determinant of, the result. In the pluralist model, interest groups exert their influence not simply through a process of consultation to achieve consensus but

23. This is an adequate, although perhaps not a comprehensive, definition. A more detailed discussion on defining the term interest group, and on the nature of such groups, can be found in Wootton (1970).

through negotiation to achieve agreement (Eckstein, 1963). According to this view, interest groups do gain concessions from governments and play an important role in the determination of policy. This approach is most developed in Corporatist models where economic policies are determined by bargaining between employers, labour and government (and perhaps agriculture). In Ireland the Corporatist approach has gained most credence in the area of industrial relations (see Roche, 1982) and has also been applied to explain the growth in public expenditure (Raftery, 1982).

The degree of influence which an interest group has depends on a wide variety of factors (Wootton, 1970) some of which are of particular importance. Thus, interest groups who concentrate on clearly defined aims are relatively more influential than those who are active in many areas of policy (Olson, 1965). The effectiveness of interest groups is clearly related to their ability to use sanctions and implement threats; for example, homogeneous groups with a wide electoral spread of members can exert influence through the power of their vote (Wootton, 1970).

*Methodology*

To evaluate the relative influence of various interest groups it would be necessary to consider each group according to criteria such as how many decisions it can influence and over what range, and to what extent it can alter policy proposals (Wootton, 1970). This chapter simply aspires to indicate the influence exerted by a number of interest groups on one single issue (Wealth Tax) and can, therefore, only hope to identify the relative influence of various groups on that issue. Furthermore, attention is confined to certain forms of interest groups, primarily associational groups representing sectional economic interests, whose activities in regard to the WT can be determined; they may not be indicative of the influence of other classes of interest groups in other policy areas.

To observe the exercise of influence by interest groups, the changes in WT policy requested by each group are compared to the actual changes made by the government. It is assumed that the official statements on WT policy (see below) reflected the actual policy intention of the government.[24] The approach adopted does not make it possible to distinguish the relative influence of those interest groups which recommended similar changes, but concentrates on the extent to which the members of given groups benefited.

For purposes of analysis three periods are distinguished which are defined

24. Given the discussion in Chapter 5, this assumption may not be entirely valid as the cabinet did not unanimously support the details of the WT proposals.

by the four occasions when the Government publicly stated their (changing) WT proposals:

1 Publication of the White Paper on Capital Taxation (White Paper) on 28 February, 1974, which presented the Government's initial proposals for a WT.
2 The speech by Richard Ryan to the Confederation of Irish Industry (CII) on 15th May 1974 (the May speech) in which a number of significant changes to the original WT proposals were announced.
3 Publication of the Wealth Tax Bill (WTB) on 5th March 1975 which presented the detailed proposals for a WT.
4 The enactment of the Wealth Tax Act (WTA) on 16th August 1975, which was the final statement on the WT.

Thus, period one is from the White Paper to the May Speech and period two is from the May Speech to the WTB. The activities of interest groups in these periods are described in the next section of this chapter. Their activities in the third period, when the WTB was passing through the Oireachtas, are discussed in the section on the Oireachtas. A fourth period, from the enactment of the WT to its abolition, can also be identified, but contains only a few minor changes.

### *The Influence of Interest Groups*

Following the publication of the White Paper, the Minister for Finance received submissions on the WT from about 160 organisations and 500 individuals. As it is not possible to identify the content of every submission, nor the extent to which the Government was predisposed to certain viewpoints, the concept of a "lobby" is used as a surrogate indicator. By lobby is meant a group of organisations (interest groups) representing the same sectoral economic interest.[25] The Agriculture lobby is those organisations which represented the interests of the agriculture sector (including forestry and fisheries). The Labour lobby represented Trade Unions. The Tourist lobby refers to those organisations which represented hotels. The largest lobby, Business, has been divided into two groups: organisations which represented Industry and those which represented Commerce, both of whose interests tended to overlap. If concessions to the WT benefited a given sector, it can be hypothesised that the lobby for that sector exercised influence and if, furthermore, the lobby specifically requested the concessions in the form in which they were granted then the hypothesis is considerably

25. This is a much narrower meaning than is normally implied by the term "lobby". Submissions by individuals, on which we have no details, should also be deemed as part of the respective lobby.

strengthened, although not necessarily proved.

In addition to these lobbies, two other classes of interest group can be identified. The Professions are those organisations which represented the views and interests of professionals, especially accountants and lawyers. Also, a number of organisations represented what could be termed Heritage interests, ranging from groups demanding the preservation of houses and estates to those concerned with wildlife, gardens and art. Neither of these classes is treated as a lobby because they did not necessarily represent sectoral interests. Taken together, the four lobbies and two classes identified encompass over 90 per cent of the organisations which made submissions. At least 20 of these also sent delegations to meet the Minister and Department of Finance officials. As far as could be ascertained, there were eight Agriculture delegations, three each for Industry, Commerce and the Professions and one for Tourism.

The Labour lobby can be quickly disposed of as only two Labour groups made submissions and they had no perceptible influence on the WT. This lobby may have pressurised the Labour Party for the introduction of a WT, but the Labour Party showed few signs of being influential on the details (see Chapter 5). The Heritage class can also be summarily dealt with primarily for a lack of detailed information on its submissions, but this is not to imply that it was not influential. "Heritage assets" were generally exempt from the WT: artistic and heritage works were exempted in the White Paper; a principal private residence was exempted in the May Speech and gardens in the WTA. However, because the fate of "Heritage assets" is an emotive issue it may be inaccurate to attribute their exemption simply to interest group influence. At any rate, the following discussion concentrates on three lobbies and the Professions, which together account for about 85 per cent of the organisations which made submissions.

The basic approach of all organisations to the WT had three elements in common: (i) opposition to the WT (only the Labour lobby actually supported it); (ii) acceptance of the inevitability of a WT, followed by demands for general concessions – i.e., concessions which would benefit all actual or potential Wealth Tax payers (e.g., lower rates and higher thresholds); (iii) demands for sectoral concessions, which would benefit only those in a particular sector of the economy.

Tables 6.1 and 6.2 set out the concessions granted in the first and second periods and provide a summary basis for the discussion in the remainder of this section. The "groups proposing" column only includes those interest groups identified as having made the proposal and does not claim to be a comprehensive list.[26] The "sectors benefiting" column only provides an indication of which lobbies could have been expected to seek the concessions

Table 6.1: *Concessions in Period 1*

| *Category*[1] | *White paper* | *May speech* | *Groups proposing*[2] | *Sectors benefiting*[3] |
|---|---|---|---|---|
| *Thresholds* | Single: £40,000 | Single: £70,000 | | All |
| | Married: £60,000 | Married: £100,000 | (All) | |
| | | Widowed: £90,000 | (SKC) (ICMSA) | |
| | | Children: £2,500 | (SKC) (ICMSA) | |
| *Rates* | 1½-2½ per cent | 1% | (All) | All |
| | No ceiling | Possible ceiling | DCC | |
| *Exemptions* | Works of Art, etc. | Same | | H |
| | | Residence | DCC | All |
| | | Pension rights | IPT | All |
| | | Livestock and bloodstock | (ICMSA) | A |
| *Reliefs* | Agriculture (50% MV or £100,000) | Same | | A |
| | | Business, Hotels to be considered | CII, DCC | I, C, T |

*Notes:* 1 More detail on the meaning of these categories is given in Chapter 2. The nature of the provisions of the White Paper and May Speech are given in Appendix B.

2 Organisations which suggested the actual change or a similar change (in which case brackets are used). The groups in question, and their *classification in the text*, are: SKC – Stokes, Kennedy, Crowley (Professions); ICMSA – Irish Creamery and Milk Suppliers' Association (Agriculture); DCC – Dublin Chamber of Commerce (Commerce); IPT – Irish Pensions Trust (Commerce); CII – Confederation of Irish Industry (Industry). (All) – Many groups argued that the rates were too high and the thresholds too low.

3 The sectors are: A – Agriculture (including forestry and fisheries); C – Commerce; I – Industry; T – Tourism (Hotels only); H – Heritage interests.

in question. The most significant concessions were the general concessions announced in the May Speech (Appendix B).

*General Concessions*

All interest groups for which information was obtained except the Labour lobby considered that the initial proposals in the White Paper were too severe; in particular, the rates were too high and the thresholds too low. The general concessions of the May Speech, which can be conceived as resulting from the combined pressure of many interest groups,[27] were essentially of

26. Copies of submissions by the DCC, CII, IHF, ICMSA, ICA, CCAB (Consultative Committee of Accountancy Bodies) and the Incorporated Law Society of Ireland were obtained. See tables for other abbreviations. Information on a further 15 groups was obtained from newspapers.

27. Possibly with support from members of Fine Gael.

Table 6.2: *Concessions in Period 2*

| *Category*[1] | *May speech* | *WTB* | *Groups proposing*[2] | *Sectors benefiting*[3] |
|---|---|---|---|---|
| *Thresholds* | As for Table 6.1 | No change | | |
| *Rates* | 1% | 1% | | |
| | Possible ceiling | 80% ceiling | DCC, ICA (NESC) | All |
| *Exemptions* | As for Table 6.1 | Defined/extended | (ICA) (DCC) (JCC) | All |
| *Reliefs* | Agriculture (as for Table 6.1) | Extended to fishing boats and bedrooms in hotels | IHF | A, T |
| | | 20% relief for stocks shares etc. | (CII) (DCC) (ICA) (NESC) | I, C, T |

*Notes:* 1 As for Table 6.1, WTB basically the same as WTA (for major differences, see Table 6.3).

2 As for Table 6.1. Additional organisations: ICA – Institute of Chartered Accountants (Professions); JCC – Junior Chamber of Commerce (Commerce); IHF – Irish Hotels Federation (Tourism); NESC – National Economic and Social Council.

3 As for Table 6.1.

three types:

(i) The reduction of the progressive rates of WT to a flat one per cent. This significantly reduced the WT liability for all taxpayers but was of most benefit to the wealthiest.

(ii) The big increase in thresholds which reduced the potential WT liability of all wealthy people but was relatively most beneficial to those with moderate wealth many of whom were completely removed from the WT net.

(iii) The exemption of the principal private residence and pension rights. These were the principal forms of wealth holding for the majority of people and their exemption benefited all, but particularly those of moderate wealth who, as a result, might have escaped the tax altogether.

These concessions taken together reduced the potential WT liability of all wealthy persons by more than half, and would have moved persons of a net worth up to £150,000 (if married) or over £100,000 (if single) out of the

WT net altogether (Appendix B). There had been a number of demands for indexation of thresholds. The Government's response in the May Speech was to provide that thresholds would be revised every three years and valuations allowed to stand for three years. The latter element of this concession, which the WTB limited to real property valuations, was of particular benefit to those who owned real property. After the May Speech there were a few more general concessions but of a minor nature. The provision of an 80 per cent ceiling, while theoretically significant, was of minimal importance in practice because it affected so few.

In addition to the pressure from interest groups, mention should be made of the report by the National Economic and Social Council on Capital Taxation (NESC, 1974) which pressed for general concessions. The NESC is composed of representatives from Agriculture, Industry, Labour and the Civil Service as well as Government nominees, and generally acts as a forum to discuss issues so as to achieve a consensus. The Government requested NESC to produce a report on the White Paper. This report (NESC, 1974) did not have much overt impact on WT policy (especially as it was published after the May Speech) and the addendum to the report by the Irish Congress of Trade Unions, which supported the original White Paper proposals, indicated tht differences between lobbies had not been reconciled.

The NESC report devoted much attention to the issue of the combined burden of income tax plus WT and favoured the provision of a ceiling. The report also favoured relief for productive property. Although both measures were later incorporated in the WT, a number of other recommendations (e.g., that the married threshold be twice that of a single person and that some proportion of compliance costs be tax deductible) were apparently not acceptable to the Government.

*Sectoral Concessions*

The extent and significance of the general concessions indicate the powerful influence of the many interest groups combined; to evaluate the relative influence of lobbies, it is necessary to look at the sectoral concessions.

*Agriculture.* The Agricultural lobby was represented by about 25 organisations which made submissions on the WT. They included the two major farming organisations, the ICMSA and IFA (both of which, but especially the Irish Farmers' Association, tended to represent larger farmers) as well as a variety of smaller groups and no less than eleven bodies representing the bloodstock industry (including horse racing). Agriculture is a very powerful and organised lobby which, because of its economic importance[28] and political

28. In 1976, Agriculture accounted for 22.1 per cent of the civilian workforce (OECD, 1983); 16.7 per cent of National Income (NIE, 1980); and 36.6 per cent of Exports (Statistical Abstracts, 1978).

clout, has gained concessions from successive Governments. It came out strongly against the WT, arguing that Irish agriculture was under-capitalised and farmers did not have the income to pay WT. It was argued that the need to modernise farms and increase efficiency required investment whereas a WT would reduce liquidity and the capacity to invest and might, in certain cases, require the sale of parcels of land to meet the tax liability. Both the ICMSA and IFA argued, in particular, that productive assets employed by genuine farmers should not be liable for WT.

Agricultural interest groups lobbied for the major general concessions and also supported a number of minor concessions (e.g., the ICMSA proposed a separate threshold for widowed persons). The most significant point is that this lobby gained its major sectoral benefit, the special relief for the valuation of agricultural land, in the White Paper. Was this relief a result of lobbying or was it an acceptance by the framers of the White Paper that farmers would not have the "ability to pay" WT?

The "ability to pay" argument is examined in detail in Chapter 9. Whether or not this argument was automatically accepted by the Government, it is evident how influential the agricultural lobby was before the White Paper from its success in securing the abolition of ED. Moreover, as agricultural land had been beneficially valued for ED, its relief under WT was merely a continuation of the outcome of earlier influence.

In addition to the general concessions announced in May, the exemption of livestock and bloodstock was a particular concession to agriculture. Taking the White Paper and May Speech concessions together, a farmer would have had to have net wealth in excess of about £250,000 to attract WT liability. Thus, not only was the WT liability of farmers significantly reduced but many farmers were taken out of the WT net altogether. The only further sectoral benefits to farmers, the extension of the agricultural relief to include farm buildings (WTB, see Table 6.2) and machinery (WTA, see Table 6.3), were minor and only benefited those farmers with wealth barely exceeding the effective WT threshold (Appendix B, Case 5).

The importance of the exemption of bloodstock should not be underestimated given the value of bloodstock and land in stud farms. The justification for the exemption was the importance of the industry to Ireland[29] and the threat that bloodstock was mobile and could easily be moved out of the country. Stud farms were also entitled to the special agricultural relief.

*Industry*. The interests of the industrial sector were represented by 24

29. In 1976, Bloodstock employment was about 8,890 and exports were worth over £7m. (Mac Cormac, 1978) – this would correspond to about 0.8 per cent of the civilian workforce (OECD, 1983) and 0.4 per cent of total exports (*Statistical Abstract, 1978*).

organisations. They included a number of companies and five bodies representing the construction industry but the most importance was the CII. The CII, established in 1932, encompassing both private and State-sponsored bodies, has been the principal representative of the industrial sector in the areas of economics, taxation, finance, trade and development. It provides advisory and information services for its members, which numbered over 2,000 firms in 1975, and promotes the views of its members in relations with Government, international organisations and the public. Another body, the Federated Union of Employers, represents management in the areas of labour, industrial relations and social policy. The CII is highly organised using a variety of means to influence policy makers: all TDs and senators receive its publications (a weekly newsletter and monthly commentary); it maintains regular contacts with members of the Government, opposition and Civil Service; it presents submissions, and sends delegations, to the Government on policy affecting business; and it undertakes a continuous campaign to influence the public.

Chapter 9 examines the effect of the WT on companies. Perhaps because the CII failed to emphasise the distinction between the effect on a publicly owned and a closely owned company, they failed to obtain any concessions for the latter.

The White Paper proposals had no special provisions for industry and, despite intensive lobbying by the CII, no such provisions were included in the May Speech. However, the industry groups were an important part of the total pressure which led to the general concessions. Moreover, an important concession for industry appeared in the WTB with the granting of the 20 per cent relief for stocks, shares and property providing employment in Ireland, although the relief did not go as far as exempting all productive property, for which the CII had campaigned.

*Commerce.* The Commerce grouping consisted of 17 Chambers of Commerce, 14 trading organisations and 20 groups representing finance (including banks and insurance companies), and was the non-industrial part of the Business lobby. Forty Irish towns had Chambers of Commerce in 1975 with members from the professions, banking, insurance, and the retail and wholesale trades. The Chamber acts as a medium through which business people in an area can meet each other and the views expressed by a Chamber are not so much corporate views as an indication of businessmen's feelings. For this reason, the views of the Chambers were similar to those of other groups in this class and among industry and the professions. As the Dublin Chamber of Commerce (DCC) is by far the most important and full information on its submissions is available, its views are taken as representative of commercial bodies.

The DCC was totally opposed to the WT which it considered unnecessary and undesirable and which it believed would reduce investment and cause a capital outflow. The Chamber favoured economic growth rather than taxation on income or capital as being the most suitable way to reduce inequalities in the distribution of wealth. The DCC supported a number of the general and minor concessions which were granted as WT policy progressed. The wealth of the commercial sector could be assumed to have been primarily in business assets and non-agricultural property, so that sectoral benefits for industry would apply to them, and it was significant that the DCC recommended the exemption of, or failing this relief for, business assets and shares in Irish quoted companies.

The Commerce group recommendations were basically of three forms: requesting relief for productive property (supporting Industry); drawing attention to technical issues (especially valuation problems, as did the professions); and seeking general concessions. Most of the general concessions have already been mentioned but another aimed to postpone the payment of WT liability for 1975. When it was obvious that the WTA would not be law by April 1975, the DCC argued that the first valuation date should be April 1976 so that people would have had time to examine the details of the tax. The Government rejected this view, but accepted the principle of postponement and proposed two amendments; one provided that 1975 returns must be submitted before October 5th (rather than July); the other, that interest would not begin to be charged on late payments until December 1975 (rather than July).

Although the concessions gained were part of the general pressure exerted by Industry and the professions, the Commerce lobby should not be underestimated as a source of influence. It has a wide territorial spread centred in urban areas (the centres of electoral constituencies) and much of the influence of the Commerce lobby could be exercised through informal contacts with local politicians rather than through the formal process of submissions and representations to Ministers and officials.

*Professions.* Professionals, such as solicitors and accountants, are essentially expert advisers to their clients. Professional organisations also play a role as advisers to the Government on the implications, and technical aspects, of policy proposals. Professional bodies, both firms and associations, accounted for 28 of the submissions made on the WT including fifteen by accountancy bodies and seven by legal organisations. Distinctions can be made between recommendations which sought concessions for business assets; those seeking general concessions; and those relating to issues of detail. This section concentrates on accountancy bodies, for which the most information is

Some of the points raised by accountancy bodies were supportive of the industrial sector. Thus, the Institute of Chartered Accountants (ICA), Ireland's oldest and largest accountancy body, was openly opposed to the WT arguing that it would be a disincentive to investment, and recommended relief for productive assets and goodwill, with the exemption of current assets employed in industry (Submission, June 1974). Many of the issues raised by professional bodies related to general concessions in line with the lobbies.

The special concern of the accountancy bodies was with technical issues and many of these were raised, successfully, by the Consultative Committee of Accountancy Bodies (CCAB) after publication of the WTB (see Table 6.3). It presented a detailed submission in March 1975, with almost 40 recommendations, covering all sections of the WTB. Six of these recommendations were considered fundamental:

1 To postpone the first valuation date.
2 To exempt PNTs acting in conjunction with trading companies.
3 To allow special provisions for new firms and those operating at a loss.
4 To include special provisions for the reorganisation of Discretionary Trusts to meet the problems posed by the WT.
5 To provide a fixed method for determining the market value of trading assets.
6 To provide a speedy and definite procedure for determining liability.

Of these six major recommendations the second was wholly achieved and the first partially (see p. 78), while the third and fourth received some attention in the Oireachtas debates (below). There were two possible reasons why the valuation issue was not debated by the politicians, despite the emphasis it received from a number of professional bodies: the issue was quite technical and politicians may not have been fully aware of the seriousness of the valuation problem; and the issue of valuation procedure was fundamentally a decision for the administrators of the tax (see Chapter 7) and it was not customary to write a fixed valuation procedure into a statute because this could create rigidity. The CCAB made a number of less important recommendations, six of which were accepted in amendments (see Table 6.3).

The Incorporated Law Society of Ireland, the representative body of Irish solicitors, totally opposed the WT believing that it would discourage investment without achieving more equity. The areas of particular concern to the Law Society were the potential effect of the tax on Discretionary Trusts and the fears of solicitors who might be secondarily accountable as agents. The society obtained advice from a Danish expert on WT and held a number of meetings with the Minister and his officials. In this way, they

may have influenced certain details of the WTA, but no overt influence can be identified.

The overt influence the professionals exercised may understate their importance. The professions advise the other lobbies and exert an important influence on the effectiveness of the tax as administered, for example, by identifying avoidance loopholes.

*Tourism.* The Tourism lobby gained significant concessions and sufficient information exists to consider in detail the arguments of the principal organisation, the Irish Hotel Federation (IHF), supported by Bord Fáilte (the National Tourist Board). In claiming that the hotel industry faced special economic circumstances IHF quoted an SKC survey of the industry for 1972-3, the major conclusions of which were: (1) in 1972 the industry as a whole operated at break-even point — 45 per cent of hotels surveyed incurred losses; (2) "The net profit on turnover was approximately eight per cent in 1968 and receded to half of one per cent in 1972", while no improvement was forecast for 1973; (3) A net profit on turnover of eight per cent, even if it were achieved, would only imply a six per cent return on capital employed (IHF Submission, March 1974).

The IHF argued that the majority of hotels were owned by individuals and that the rate of return was unlikely to exceed three per cent for the industry in 1975, therefore further taxation could seriously affect the sector and employment.[30] The IHF were particularly concerned that open market valuation could overestimate the current use value of hotels and that family hotels would have to withdraw working capital to meet their liability. The tax would discriminate against family owned hotels in competition with hotel companies, especially where the latter were foreign owned. These arguments were elaborated in a May 1974 submission by the IHF which re-emphasised the need for current use valuation. The hotel lobby argued for the exemption of goodwill and of assets which, although not income generating, were necessary amenities (e.g., a swimming pool) and requested a 33 per cent relief for shares in hotel companies. Despite these efforts, no sectoral concessions were announced for hotels in the May Speech.

The efforts of the IHF continued: it requested its members to lobby all their local TDs; it made representations with the CII (to which it was affiliated); and it enlisted the support of Bord Fáilte, which made submissions to a number of Ministers. In response to this lobby, the WTB included two sectoral concessions for hotels: bedroom accommodation was entitled to the

30. In 1971, hotels employed over 15,000 persons (*Statistical Abstract,* 1978) or about 1.3 per cent of civilian workforce (OECD, 1983). Expenditure by visitors in 1976 was over £137m. about 3.8 per cent of National Income (*Statistical Abstract,* 1978; NIE, 1980).

same relief as agricultural property while remaining hotel property was entitled to 20 per cent relief (see Appendix B, case 4). The IHF remained unsatisfied and argued that the special hotel relief should extend to all hotel property, and the recommendations of the IHF were reflected in a number of amendments proposed by FF during the Dáil debates on WT. The Government rejected these arguments, responding that the bedroom portion was differentiated because it was less likely to have its full capacity realised. However, the Minister conceded the special position of hotels and an amendment increased the 20 per cent relief for non-bedroom hotel property to 30 per cent for the period 1975-7.

The Tourism lobby was, along with Agriculture, the most successful in gaining concessions for its members, and the sum total of all the concessions reduced the valuation of any hotel for WT purposes by at least 30 per cent but generally more (Appendix B). The lobby used three identifiable means of exerting influence: it made representations to the Minister presenting well documented arguments for the special treatment of hotels; it obtained active support from other bodies (CII and Bord Fáilte); and it encouraged all members to lobby their local TDs.

*The Oireachtas*

The first section of this chapter surveyed the interest group pressures on WT which can be loosely termed "private pressures": although many of the submissions by organisations were made public, e.g., reported in newspapers, much of the pressure was exerted behind the scenes. In this section the Oireachtas debates on the WT are described with a view to determining how they were conducted; what influence they may have had; and the extent to which these "public debates" may have been influenced by private pressures. In the next section the "public pressures" on WT policy will briefly be summarised, i.e., media attitudes and reporting of interest group submissions and Oireachtas debates. A brief description of the nature of the Oireachtas and its legislative powers will be given before considering the debates.

The Irish Constitution specifies (Article 15) that only the Oireachtas (which formally consists of the Dáil, Senate and President) has the power to legislate, although it may provide for subordinate legislatures, but no law can be enacted which is repugnant to the Constitution (the Supreme Court being the final arbiter). Article 20 specifies that any Bill, except a Money Bill, passed by the Dáil may be amended by the Senate but that there is no compulsion on the Dáil to accept such amendments. In the case of Money Bills, which only the Dáil may initiate, the Senate can only make recommendations and must finish debating the Bill within 21 days. Since the WTB was a Money

Bill, only the Dáil debates had real significance.

One general problem which faced most members of the Dáil (TDs), whether as legislators or supervisors, was the inadequacy of facilities; TDs shared party rooms and secretaries while there were few organised research facilities at party or parliamentary level. Since the time of the WT the position has improved somewhat. A further constraint on the Dáil is the local orientation of TDs,[31] or what is more commonly termed brokerage politics. It is activities at local level, more so than activity in the Dáil, which ensure the election or re-election of a candidate. The TDs, with insufficient resources to fulfil their parliamentary duties, find that much of their time must be devoted to constituency matters. As a result, they have neither the knowledge nor the energy to enable the Dáil properly to fulfil its legislative powers (see Chubb, 1982). In the words of one TD (Desmond, 1975) the parliamentary majority becomes a rubber stamp for cabinet proposals: the cabinet initiates legislation while the Dáil is a forum for often repetitious debate and has little influence over the process of legislation with the role of the TD being passive, either assenting or refusing.

*Dáil Debates on WT*

There are four stages to the legislative process in the Dáil, the first being only a formal introduction of the Bill. The second stage is a debate on the principles of the Bill, followed by a vote and once a Bill has been approved in principle no fundamental changes can then be made. The Committee stage involves a detailed debate on each section of the Bill where amendments may be proposed, and voted on, provided they do not negate the principles of the Bill. Finally, in the Report stage the Bill as amended is considered, and further amendments may be proposed, before being passed on to the Senate. The second stage of the WTB began on 5 March 1975 and speeches were made by six members of FG, one Labour member and eleven members of FF. Essentially, general arguments relating to a WT and its introduction in Ireland were presented. Coverage of the arguments here would be repetitious (see Chapter 2, pp. 17 to 19, Table 2.1) so only a few important issues will be raised.

The central argument reiterated in most of the FG speeches was that the WT was part of a rational system of capital taxation and that the WT itself was a more equitable and less severe replacement for Estate Duty. The Coalition partners were not united in their views and one FG TD, Maurice Dockrell, opposed the WT and abstained in the vote, while Joe Bermingham

31. This is reflected in speeches: seven of the eighteen who spoke on the second stage of the WTB referred to their constituencies.

(Labour) supported the Bill but felt that the measures were insufficient. Generally, the arguments were competent and a number of FG speakers suggested that investment, in the long run at least, would not suffer.

All of the FF speeches claimed that the WT would be a disincentive to investment; five claimed it would cause a capital outflow.[32] Nine of the speakers argued that, given the economic recession, it was not desirable to introduce a WT at that time, and referred to how the WT would adversely affect certain sectors of the economy – in most cases they referred to business (six speakers quoted CII statements) but two spoke of agriculture. While all speeches emphasised the economic effects of the WT, six tended to use emotive or ideological language claiming, for example, that the WT was a move towards socialism, or even communism, and was a threat to private property deriving from the "politics of envy".

The WTB passed the second stage, not because of the weight of the arguments for it, but because of the weight of the Government majority behind it. The Committee stage began on 5 June with a FF filibuster: a constant flow of FF speakers rose to make long speeches, reiterating points made during the second stage rather than referring specifically to the amendments and sections under debate. The Government retaliated by imposing a guillotine so as to complete the Committee stage on 12 July. The report stage was from the 24 to the 30 of July.

Taking both stages together, about 100 amendments were proposed to the WTB, 74 at the Committee stage; 38 of these were from the Minister all of which were accepted. Sixty-two amendments were proposed by FF, six of which were accepted while 28 were rejected; the remainder were not debated, being either withdrawn or not moved. There is no need to consider these amendments in any detail, but some questions should be answered. Can any of the amendments proposed by the Minister be identified as responses to FF, or lobbies? To what extent did the amendments proposed by FF reflect pressure group attitudes?

Most of the Minister's amendments were not particularly significant for the structure of the WT, being drafting improvements, minor alterations, or issues of detail. However, fifteen of the amendments were of such a nature as to alter the scope of the WT, or the amount of WT which particular persons might have to pay. These amendments are summarised in Table 6.3 which also lists the four significant FF amendments which were accepted. Twelve of these 19 changes can be related to the views of particular interest groups, and on nine of these FF presented arguments in line with the views of the interest groups.

32. Four speakers stated that such an outflow had already occurred.

Table 6.3: *Concessions in Period 3*

| *Amendment*[1] | *Issue involved*[2] | *Groups proposing*[3] | *Sectors benefiting*[4] |
|---|---|---|---|
| A.1 | Including adopted child as "minor child" | CCAB | |
| A.3 | Defining "ordinary resident" | CCAB | |
| A.3(c)* } A.3(d)* | Permitting certain DT beneficiaries to claim thresholds | FF | |
| A.8, A.9 | Defining PNT | CCAB, FF | |
| A.9(a)* | Defining exempted residence | (FF) | |
| A.10 | Exempting benefits from superannuation and trust schemes | DCC (FF) | |
| A.13 | Exempting property of certain DTs and PNTs | – | |
| A.16 | Exempting gardens etc. | (DCC) FF | H |
| A.17 | Exempting "timber" | CCAB, FF | A |
| A.19 | Providing relief for farm machinery | – | A |
| A.21 | Extending relief for hotels | (IHF) (FF) | T |
| A.22 | Defining "genuine farmer" | IFA | A |
| A.23(b)* | Deducting debts incurred on purchase of exempted property | (FF) | |
| A.24 | Reimbursing agents who pay WT for clients | (FF) | Agents |
| A.25 | Limiting information which agents must disclose | CCAB, AAA, FF | Agents |
| A.26(bb) | Postponing the date for 1975 return | CCAB, DCC, FF | All |
| A.28 | Extending the interest free period for 1975 | CCAB, DCC, FF | All |

*Notes:* 1 Any changes made to the WTB before it became an Act were made by way of accepted amendments. This column gives the number of the Amendment in the Dáil Debates – only the more important amendments are included. An asterisk denotes a Fianna Fáil amendment.

2 Only the briefest description is given – cases where an elaboration is warranted are explained in the text.

3 As for Table 6.1. CCAB – Consultative Committee of Accountancy Bodies (Professions); IFA – Irish Farmers Association (Agriculture); AAA – Association of Agricultural Advisors (Agriculture). FF – where the specific issue was raised by Fianna Fáil prior to the Amendment being accepted; (FF) – where FF raised a similar issue.

4 As for Table 6.1.

Of the six FF amendments accepted, two were minor, two were amended by the Minister before being accepted (one relating to the deduction for debts incurred on purchasing exempt property[33] and the other relating to the definition of exempt residence) and the other two extended the provision whereby certain beneficiaries of Discretionary Trusts would be allowed to claim thresholds. Fianna Fáil itself could not claim to have influenced the WT legislation significantly, but it did lend support to many of the arguments presented by lobbies, a point made clearer by examining the FF amendments which were rejected.

A total of 28 FF amendments were rejected, half of which related to the extension of exemptions (e.g., to exempt all productive property) or reliefs (e.g., to extend the special agriculture relief to all types of productive property), primarily to the benefit of business assets. These arguments reflected the dominant feelings of the FF party and were also in line with the views of lobbies. Other issues raised referred to the indexation of thresholds and the postponement of the valuation date.

On 30 July 1975, the Dáil voted by 69 to 67 to allow the WTB to proceed to the Senate, the normal Government majority of three being reduced by Maurice Dockrell's abstention.

*Senate Debates*

Since the WTB was a Money Bill, the Senate was obliged to complete its discussion of the Bill, on which it could only present recommendations, within 21 days. The Senate debates were of a fairly high standard and a few new points were raised. Senator Yeats (FF) pointed out that since the WT would be substitutive it would not redistribute wealth and hence one of the objectives of the WT could not be met. Ten of the seventeen Senators who spoke on the second stage favoured the WT although two expressed some reservations. The FF arguments against the WT were similar to those presented in the Dáil. The emphases of the arguments favouring the WT were in terms of social justice and the provision of information (particularly on the concentration, distribution and movement of wealth).

Fifty-nine recommendations were proposed by FF but only one of these, which related to the exemption of productive property, was voted on and it was rejected. All but five of the issues raised by FF had previously been raised in the Dáil. Two of the new recommendations were raised by Senator Lenihan and related to the exemption of private non-trading companies which were

33. FF proposed total deduction of all such debts but this would have allowed persons to reduce their WT liability by incurring debts on the purchase of exempt assets. The Minister allowed the deduction of such debts only if the purchase was before 5 April 1975.

genuine holding companies[34] or which held property for children or parties to a marriage. The remaining three were proposed by Senator Yeats, only one of which was important – requesting the exemption of the assets of: (1) bodies for whom trade for the year was at a loss or (2) bodies which only commenced trading within the previous two years. The Minister rejected this recommendation arguing that valuation procedure would take account of these problems.

The Senate did not exert influence, but it did bring out new points and presented old ones in a new, often clearer, perspective. Although the Minister did not accept any recommendations, he undertook to consider some of the points made, and one such point was later incorporated into the WT.

### *Public Pressures*

There were three, often related, strands to the public pressures in regard to the WT: the Media, Oireachtas debates, and interest group views. The latter two elements became public if reported by the media, while the media may also have exerted pressure through its own views (e.g., editorials). An analysis of the publicity given to the WT debate by the media was undertaken by looking at the reports in three major national morning newspapers: *Irish Times*; *Irish Independent*; and *Irish Press*. Probably half of all adults read at least one of these papers daily,[35] the most widely read being the *Independent* (with a readership of 43 per cent of adults) which held the largest market share in all social classes except the highest, in which the *Irish Times* was the most widely read. While, basically, the *Irish Times* was politically liberal and the *Independent* neutral, the *Irish Press* supported Fianna Fáil, having been founded by Eamonn de Valera in 1936 (Chubb, 1982).

Table 6.4 summarises the extent to which these three dailies reported the WT issue, although it should be emphasised that the numbers presented are quantitative and not qualitative. It may further be noted that most of the views expressed by politicians came under the headings of Dáil and Senate Reports while all but two of the reports of the views of FG politicians referred to Richard Ryan.

One of the most obvious points from Table 6.4 is that coverage of the WT issue was considerably less in 1975 than in 1974, especially given that most

34. The Minister said that this point would be considered, (i.e., that future changes to the WT, once its operation had been studied, might take account of the point). In fact, the Finance Act (1977) included a provision for a similar exemption.

35. Estimate based on data from National Media Survey (1974/75). References to newspaper readership and its socio-economic composition are from this source, which was made available by Irish Marketing Surveys.

Table 6.4: *Coverage of WT issue in morning newspapers, 1974-1975*

| Coverage | 1974 | | | 1975 | | |
|---|---|---|---|---|---|---|
| | *II* | *IP* | *IT* | *II* | *IP* | *IT* |
| Views of lobbies[1] | | | | | | |
| Business | 11 | 7 | 11 | 1 | 4 | 5 |
| Agriculture | 7 | 12 | 8 | 3 | 0 | 3 |
| Labour | 2 | 1 | 2 | 0 | 1 | 4 |
| Professions | 5 | 6 | 14 | 1 | 1 | 3 |
| Views of Politicians[1] | | | | | | |
| FG | 3 | 8 | 5 | 1 | 2 | 4 |
| FF | 2 | 4 | 3 | 2 | 1 | 3 |
| Labour | 0 | 1 | 2 | 1 | 0 | 1 |
| Oireachtas debates | — | — | — | 17 | 23 | 23 |
| Commentaries[2] | 10 | 7 | 10 | 4 | 2 | 2 |
| Total coverage[3] | 40 | 42 | 49 | 30 | 32 | 45 |

*Notes:* 1 Number of reports under each heading.
2 Number of editorials and commentary articles on the WT.
3 Number of *days* on which pieces referring to WT appeared.

of the reports in 1975 related to Oireachtas debates: it seems likely that the interest groups had made their points before 1975. The most extensive coverage of the WT issue was given by the *Irish Times* which reported, in particular, the views of the business lobby and professional bodies. The *Irish Press* gave considerable space to the views of politicians and the Agriculture sector, but was less comprehensive in other areas. The *Independent* gave the least coverage overall, but provided the most commentary.

Editorially, the *Irish Times* supported the principle of taxing wealth but considered that the White Paper proposals contained excessive rates, too few exemptions and did not take account of inflation (*IT*, 28.2.1974). The paper argued that the modified proposals for WT would be generally acceptable, and that the Government was gaining support through its radical policies on capital taxation (*IT*, 16.5.'74). The *Irish Press,* on the other hand, criticised the WT proposals as being unpopular, badly structured and administratively complex (*IP*, 28.2.'74), and its editorials sided with FF and lobbies, remaining consistently opposed to the tax. The editorials in the *Independent* accepted the need for equity in taxation and were prepared to support such a tax if the administrative hazards were overcome and the

economic repercussions minimised (*II*, 28.2.'74). However, the paper's political correspondent and its business editor both wrote articles opposing the tax.

In the light of the preceding discussion it would appear that the principal public pressures on the Government to change the WT proposals came from interest groups, broadly supported by media coverage and opposition politicians. These pressures were strengthened by the private pressures exerted by interest groups, individuals and, probably, a number of FG politicians. These pressures led to significant changes in WT proposals.

### *Pressures on WT Policy*

The first conclusion on the operation of interest groups in relation to the WT is that, in accordance with Walkland's (1968) theory, the activity of the interest groups was concentrated in the period preceding the legislative stage, i.e., before the WTB was introduced. Partly because of the inherent weakness of the Oireachtas, interest groups tend to bypass it and direct their pressure towards those who initiate legislation, the cabinet and administration. The fact that the major modifications to the WT were made prior to the legislative stage shows that the real decisions were made before any parliamentary debate. The extent of these modifications shows that interest groups were very influential and were not, as Walkland (1968) argued, simply consulted to ensure consensus.

The influence of interest groups on the WT supports the pluralist approach of Eckstein (1963) whereby the lobbies do gain concessions because the Government negotiates with them to achieve agreement. However, a mature pluralist system requires an effective parliament, which did not exist in Ireland at the time of the WT. The policy-making process which produced the WT could be considered as a covert form of corporatism – the major decisions were made behind the scenes, in discussions involving the Government and interest groups – if not verging on elitism, to the extent that certain groups exerted influence disproportionate to their size. The evidence indicates an absence of full public debate because the major issues were decided before the Wealth Tax Bill was presented to the Dáil. At the time no use was made of parliamentary committees.

The general concessions testify to the influence of interest groups as a whole but it is the sectoral concessions which identify the most influential lobbies. As Wootton (1970) argued, specific characteristics of an interest group delineate its potential to influence, the central factors being the groups' ability to apply threats or sanctions, or to utilise its members' votes. The groups which gained the major sectoral concessions displayed one or more

of these characteristics. The Agriculture lobby had already displayed the effectiveness of its vote in the 1973 election and also used the threat that the WT would undermine the capacity of efficient farmers to expand. Similarly, the Hotel industry argued that a WT would threaten its viability. The Bloodstock industry implicitly indicated that if it was made liable for WT, bloodstock would be removed from the State.

Our analysis of interest groups may understate their real influence as it only considered the observable exercise of influence and did not take account of latent influence (i.e., cases where decisions were not made nor options considered because of the fear that powerful lobbies would mobilise against them). In a study of the WT the influence of lobbies is easily identified, not only in the cases enumerated in this chapter but also in the abolition of Estate Duty and, eventually, of the WT. The former decision related directly to pressure from Agriculture while the latter, although according with stated FF policy, relates directly to the views of many interest groups. The opposition to the WT continued unabated after its introduction, and in the period 1976-78 pre-budget submissions by the CII amongst others requested the abolition of WT. The fact that no WT has been reintroduced and, indeed, that FG repudiated the tax and that the deficiencies in the system of capital taxation have not been tackled seriously, is perhaps indicative of latent influence.

It has been shown in Chapter 5 that the Government did not have a clear idea of what was needed in a WT — which left them open to persuasion from interested bodies. In order fully to appraise the influence of lobbies, the attitude of the Civil Service must be examined. If the Civil Service was giving the same advice as the lobbies, this detracts from the importance of the latter's influence. But if the views of each were at variance and the views of the lobbies prevailed then the significance of the lobbies is strengthened. The next chapter considers the role of the Civil Service.

Chapter 7

# *THE CIVIL SERVICE AND ADMINISTRATION*

This chapter considers the role played by the Civil Service in formulating and implementing the WT. It begins by outlining some theories of bureaucracy; then examines the relationship of the departments directly concerned with taxation and the role played by them in formulating tax policy. It next examines the problems of administering a wealth tax and the way they were tackled in the Irish WT, which includes a consideration of the crucial area of valuation. The chapter concludes with a few comments relating the findings on the WT to the theories described at the beginning.

## *Civil Servants and Policy Making*

### *Theories of Bureaucracy*

The classical Weberian view of the role of the civil servant or bureaucrat is that whereas the politicians determine the goals of policy, it is the civil servants' role to find the best means by which the politicians' goals can be achieved. This is very much in accordance with the Anglo-Irish tradition of the respective roles of minister and civil servant: the minister (or the cabinet) determines policy, the civil servant implements it.

As Barrington (1980) points out in respect of Ireland, the Ministers and Secretaries Act (1924) gives virtually all legal powers to the Minister, who is accountable for the actions of his department, so that he would retain control over the business of government. Such an aspiration, however, has become impractical as the size of government has grown. In the words of C.H. Murray, himself a former Secretary of the Department of Finance, "Big government can tend to blur, if not remove, the line which divides the politician from the bureaucrat, in particular the line which marks the division of functions in regard to policy formulation, decision and execution" (Murray, 1983, p. 228).

Dr Murray argues that the growth and complexity of modern government has significantly extended the time required by a minister to become sufficiently familiar with his department to enable major policy changes to be formulated, therefore he relies more heavily on the Civil Service. The balance between public servant and minister has been tilted in favour of the public servant. Thus, the Civil Servant sets the climate when the minister takes up his office (Chubb, 1983) and can exert considerable influence by

way of preparing memoranda and explaining issues "... a minister reading a file will only see one possible course of action, but this might be due to the way in which the matter is presented ... Nevertheless, interventions by the ministers are decisive ..." (Chubb, 1983, p. 174). Fanning (1978) has shown that the success of the Department of Finance in getting its way has fluctuated, being seriously influenced by political changes and ministerial interventions. The less work the party has done in opposition to work out the details and implications of its policies, the larger the part the Civil Service might be expected to play in formulating policy.

It has been suggested by a number of writers on bureaucratic behaviour that, whereas Weber has conceived of bureaucrats seeking the optimal means of implementing politicians' goals, in practice they tend to "satisfice". They are naturally conservative and tend to incrementalism — to move forward by a series of slow incremental steps rather than seeking radical solutions. Such an approach may be particularly characteristic of a revenue department, which contains no research section or budget for research and whose prime objective is to keep the revenue flowing in.

The most recent school of thought on bureaucratic behaviour is that bureaucrats do not merely respond to externally generated goals — they fulfil their own internally-generated goals. Niskanen (1974) defines bureaucrats as those in charge of a bureau and a bureau as a unit which obtains its funds at least partly by grants rather than the sale of its services. Whilst bureaux exist outside the public service, they are characteristic of the public sector. Bureaucrats, in the Niskanen view, seek the same sort of satisfaction as the rest of us, such as more salary, promotion, power and prestige. Nor should they be thought of as purely selfish; many bureaucrats are dedicated people who identify an increase in their service, be it education, health or defence, with the national good. The maximisation of their budget serves as a reasonable proxy for all these motives; hence there is a built-in tendency for the public sector to expand. Even if we reject the extreme Niskanen model of the bureaucrat, we should not ignore internally-generated goals. As Murray puts it, "The preferences, convictions and prejudices of public servants are by no means irrelevant in explaining the growth of public expenditure" (Murray, 1983, p. 295). Nor are they irrelevant, we might add, in explaining other aspects of tax policy-making and implementation.

*Department of Finance and Revenue Commissioners*

Before considering the role of the civil servants in the formulation of the WT we need to have some understanding of the departments involved. The Department of Finance and the Revenue Commissioners (Revenue) work on tax matters in a close relationship which is unusual if not unique by inter-

national standards. The Revenue has not got the independence of a National Tax Board (as, for example, in Sweden) which, in principle, is concerned not with policy but solely with the administration of taxes and is completely separate from the Finance ministry. Nor, on the other hand, is Revenue simply a subordinate section of the Department of Finance. The Chairman of the Revenue Commissioners has the right of direct access to the Minister. The relationship is that, whilst the Department of Finance carries the last word on policy matters, the Revenue has a substantial input. Broadly speaking, Revenue have responsibility for the implementation and administration of a new tax and would supply all the technical detail, while the Department of Finance would have the last say on broad policy matters and on proposals to ministers. In such a situation, where the respective roles are not precisely defined, much depends on the personalities and attitudes of the prime actors, especially the Chairman of the Revenue and the Secretary of the Department of Finance. In fact, in relation to the WT, the indications are that the relationship between the Department of Finance and the Revenue was close and harmonious.

*Civil Service Input to Wealth Tax*

The Coalition arrived in power with a commitment to abolish ED and introduce a WT, but with little idea on how that undertaking was to be implemented. The Civil Service provided a secretariat of senior Finance and Revenue officials for the Cabinet sub-committee which was responsible for WT (see Chapter 5).

The usual situation in respect of a new policy initiative is that ministers ask certain questions and the civil servants then prepare papers in answer, indicating the alternatives and their implications. With the WT, so ill-prepared were ministers, the secretariat needed to put to the sub-commitee a discussion paper indicating the sort of questions which needed to be asked.

The civil servants, under intense pressure of work through the introduction of three new capital taxes more or less at the same time, and early in the life of the government, were not convinced that introducing a WT was the best way to implement the objectives of ministers and twice put forward proposals for retaining but reforming ED. Whilst the Minister of Finance was not unsympathetic to this approach, the political commitment to abolish ED was held to be absolute. Thereafter the civil servants concentrated on trying to produce as workable a WT as possible which, in their view, meant keeping WT simple, facilitating easy self assessment without the need for accountants, with a relatively low threshold and low rate, and a minimum of exemptions and special reliefs. Such a tax would have had a higher revenue potential than the WT enacted. In this they were frustrated by the influence

of the pressure groups (see Chapter 6).

The secretariat prepared a series of position papers for decisions by the Cabinet sub-committee. Towards the end of 1973 the sub-committee ceased to meet regularly. With the aid of input from Revenue, drafts of the White Paper were then prepared by the Department of Finance for consideration by the sub-committee and ultimately for Cabinet approval. Similarly the May Statement of the Minister was prepared by the Department of Finance in accordance with ministerial decisions.

One major activity of the civil servants was drafting the replies to the flood of representations and briefing ministers to meet delegations. They also collected the representations and summarised them for the Cabinet indicating what had been said by whom. There was no pressure from the Civil Service for the abolition of WT which was held to be working reasonably well for a new tax at the time its existence was terminated. In the view of one senior civil servant the WT was introduced for the wrong reasons and abolished for the wrong reasons.

### *Method of Administration*

Administration of a WT raises particular difficulties. These are of two basic kinds: disclosure and valuation. Disclosure problems arise in particular with property held by residents abroad and with personal property, like jewellery or pictures, which may be of high value but low bulk and are normally kept within the house. Valuation is a special problem because in principle the tax requires the listing and valuation of a large stock of assets which are not being listed or valued for any purposes other than tax. In other words, the valuation is not associated with a concurrent economic transaction which is the case with most other taxes. Thus, most of income tax is based on sums received for the sale of labour or the use of capital; sales taxes relate to the sale value of goods and services; even with CGT most values are realisation values relating to open market sales. Even with death duties and CAT an inventory of property is usually required for other purposes than tax and sometimes assets are sold, generating open market sales values.

The lack of actual sales does not matter if there is an active market in a particular class of property giving rise to daily values to which both tax-payer and revenue authorities can refer; but in practice this is only true of publicly traded stocks and shares on the stock exchange. Even leaving, on one side, the particularly difficult problems of valuing pension rights for WT purposes (pp. 151-152), the valuation of personal possessions, real property and especially business property held in closely-owned businesses, causes considerable difficulties.

In order to avoid making new open market valuations of these properties each year, countries with wealth taxes generally adopt expedients which obviate the need for making annual valuations or simplify the process. The three main expedients adopted are: (1) Valuing the taxpayer's total net wealth in one year and assuming it remains unchanged for several following years (as in Germany). (2) Fixing the value of particular classes of asset by official valuations and assuming these remain unchanged for several years (as with real property in the Scandinavian countries. (3) Using formulae for the value of particular classes of asset (as with the shares in companies not quoted on the stock exchange, for example, in Germany and Denmark).

Typically the administration of wealth taxes is linked with income tax – indeed, at the time the Irish WT was in force this was true of all the wealth taxes in OECD countries except Ireland (OECD, 1979). The common pattern was a decentralised administration with the same officials administering both income tax and wealth tax. Usually there was a combined return, and in most cases a centralised body, such as the National Tax Boards of Sweden and Denmark, provided guidelines for administering wealth tax especially in respect of the standardisation of valuation for particular classes of assets.

Ireland chose a different procedure. In Ireland the administration of WT was fully centralised and WT and income tax were essentially administered separately. Nor did the Irish resort to formulae or official valuations.[36] Open market values were sought for all taxable assets except in so far as there were special reliefs reducing the open market value for tax purposes. The Irish WT was run from the same offices as CAT and administered very much along the lines of the former Estate Duty.

There were a number of reasons for these distinguishing characteristics of the Irish WT. First, the WT was largely administered by officials who had previously administered ED and who were no longer required for that tax or for CAT. It obviously made sense to transfer existing qualified staff within the revenue service and it was natural that they should think of administration in terms of their previous experience and methods. In the event the Irish WT had a threshold much in excess of that of any of the continental wealth taxes; consequently only about one-third of one per cent of income tax payers paid WT. There would seem to have been little point in linking such a wealth tax with income tax. As for formulae valuations or official valuations, there was no tradition of them in Ireland, save in respect of local Rates – and the valuations for Rates were so outdated and unsatisfactory that they hardly seemed a propitious precedent. Moreover, with a

36. Here used to mean valuations, of classes of property, initiated and conducted by officials and publicly available.

threshold as high as that of the Irish WT it was to be expected that all WT payers would employ accountants, who could advise on the WT return and undertake some of the more difficult share valuations.

In other respects the Irish WT did include provisions to ease the disclosure and valuation problems. In common with other countries, they did not attempt to tax pension rights.[37] Besides owner-occupied houses (which could not readily be concealed and were not too difficult to value) the contents of the house were completely exempted from duty; the Irish thus adopted the principle of the Danish wealth tax – "the tax stops at the door" – thereby obviating the disclosure and valuation problems associated with high-value personal possessions. Further, the Irish tax provided that, at the taxpayer's choice, the value of items of real property could stand for three years. Then, as we have earlier noted, the separate taxation of private non-trading companies eliminated the valuation problems which would otherwise have been associated with the taxation of shares in them in the hands of the shareholders. The exemptions of livestock, bloodstock and growing timber eased the administrative problems too, even if they were not introduced for that reason.

## *Valuation Procedures*

Because the valuation procedures employed in the Irish WT were so different from those of the other OECD countries with wealth taxes and because they gave rise to considerable complaints of delays, protracted negotiations and high compliance costs (which we explore in the next chapter), we need to examine them in more detail. We look first at the principle of open market value compared with the alternatives; then at the practice in relation to the Irish WT.

### *The Theory of Valuation*

Most economists and tax administrators would take the view that, in principle, the basis of valuation for a wealth tax should be open market value – the price an asset would fetch as between a willing buyer and a willing seller in a market open to all comers. In Ireland this was the basis used for ED and for CAT and CGT.

It is claimed that open market value least distorts resource allocation; any higher value would be unfair and any lower value would create a locked-in effect, because selling the undervalued asset would cause the taxpayer's wealth tax base to increase by the difference between the proceeds of sale

37. CAT did tax pension rights but this was a less difficult problem than under WT since the pension was known on death.

and the valuation, unless another undervalued asset was acquired. None the less, open market values have many defects. Even with sales on the Stock Exchange, least imperfect of property markets, quoted prices relate to the price at which jobbers are prepared to sell very small quantities of shares. The attempt to sell large quantities over a period might lead to a big price reduction. Conversely, on occasion (e.g., to change the control of a business) the holder of a large block of quoted shares might be able to get above the offer price. The market may be affected by rumours leading to big changes in quotations – and so on.

In markets other than the Stock Exchange the position is often very much worse. The theory of open market value is that a willing buyer and seller meet; in practice they may not do so; or, at least, the willingness is frequently greater on one side than the other so that, in effect, there is a big difference between the price at which a taxpayer can sell an asset and that at which he can acquire it. Particularly with assets that are in some way unique, a taxpayer might buy them at auction one day, but only be able to sell them at a much lower price the following day.[38]

In addition to the objective of obtaining the best possible values, two other major considerations need to be taken into account in determining valuation methods. One is the need to keep down administrative and compliance costs,[39] which use real resources. The other is to avoid uncertainty and delay, which increase administrative and compliance costs; impede rational planning by the taxpayer of his personal and business finances; and are liable to bring the tax system into disrepute and encourage undervaluation, evasion and avoidance.

Valuation methods thus need to be a compromise between the three desirable criteria of the best possible values, minimum administrative and compliance costs and minimum uncertainty and delay. In deciding just where the compromise should lie the deficiencies of open market valuation, the rate of tax and frequency with which it is imposed, need to be remembered. Methods most suitable for ED imposed once in a generation at a relatively high rate are not necessarily the most suitable for a WT imposed annually at one per cent. In the next chapter we explore the compliance costs of the Irish WT. At this point we simply note that the Irish WT went throughout for open market values, with the taxpayer being required to put forward all the values himself. With the continental wealth taxes, the typical situation

38. This treatment of the theoretical aspects of valuation is based on Chapter 10, Sandford, *et al.*, 1975, which should be consulted for a fuller account.

39. Administrative costs are the costs incurred by the Revenue authorities; compliance costs are costs incurred by taxpayers in meeting the requirements of the tax system (see Chapter 8).

was for certain classes of assets to be valued on a formulae basis and for the state itself to undertake valuations for other classes, notably real property. In the compromise amongst the three desirable objectives the continental countries put more weight than Ireland on minimising compliance costs, uncertainty and delay. But their wealth taxes were paid by a very much larger proportion of the population than the Irish tax with its high threshold and exemption of owner-occupied houses.

*Wealth Tax Valuation in Practice*

The onus of presenting a valuation for the Irish WT lay with the taxpayer. The Revenue Commissioners assessed and could challenge that valuation. Our consideration of valuation divides into two sections: (1) the valuation of real property which, for the taxpayer, was undertaken by accountants, auctioneers and surveyors and, for the Revenue, by the Valuation Office; (2) the valuation of personal and financial assets undertaken for the taxpayer by accountants and for the Revenue by the valuation section of the Revenue Commissioners.

*Professional Valuation of Real Property.* An accurate open market value of real property for a taxpayer could only be made by a professional valuer. While the initial cost would be high, once made a professional valuation could easily be up-dated. In fact very few taxpayers obtained professional valuations for WT purposes. Four reasons for this situation have been suggested by a valuer:

(i) The cost would be high relative to tax liability.
(ii) A number of accountancy firms simply accepted the valuation by their clients.
(iii) Many taxpayers wanted their property to be undervalued (so as to reduce WT liability) and this was most easily achieved by letting accountants or auctioneers (especially in rural areas) rather than surveyors make the valuation.
(iv) The Valuation Office, at that time, had few professional valuers on its staff, used rough methods of valuation, and did not have the resources to inspect many properties. Accordingly, taxpayers believed that they could get away with an undervaluation.

The truth of the first point is confirmed by our examination of professional valuation (below). The validity of the second and third points has been upheld by other commentators (accountants, auctioneers and Valuation Office staff). The last point will be considered in more detail when we examine the operation of the Valuation Office.

A professional valuation is a very detailed process which pays considerable attention to the comparisons of the conditions and circumstances pertaining to different properties, especially similar properties in the same area. Despite the detail involved, it is admitted that valuation is not an exact science but where two valuers disagree the difference is unlikely to be large. The most essential point is that the valuer must see, and inspect, the entire property. A large number of factors are taken into account in a valuation, the most obvious of which are the situation of the property (in respect of areas of population, infrastructure and access); its description (identifying the exact acreage of the property, physical layout, quality of soil, nature and extent of any structures); and its condition (that is, the structural properties of all buildings).

The services available to the property, like sewerage, drainage and power, and their quality must be ascertained. An imperative factor, and one which can often be highly complex, is to determine the planning laws relating to the property and the likelihood of any zoning changes – in particular, the development potential of the property. The Rateable Valuation, and its apportionment between residential and non-residential elements, must also be established. Finally, the valuer must consider the title to the property which would generally be freehold but which could be complex if there were leases or tenants.

Having assessed all these factors, in determining the value the valuer must consider any sales of comparable properties in the area, allowing for particular differences. The economic circumstances relating to the use to which the property is put are also relevant. In the context of the WT, the exemption of a residence plus one acre could generate an artificial situation in apportioning value. The Valuation of commercial property can sometimes give rise to serious difficulties because of the need to determine precise ownership (its composition and distribution) and apportion the value between various parties.

The cost of getting a professional valuation would depend on the value of the property but, given the scales of professional charges,[40] the cost could be estimated at around £200 for property worth £100,000 and £175 per additional £100,000 value. Thus, for example, if an estate consisted of house and contents (exempt), £20,000 of other taxable assets and £200,000 of agricultural land (valued for WT purposes at £100,000 because of the relief) the taxable wealth for a married man with no children (threshold £100,000) would be £20,000, WT would be £200 and the professional valu-

40. The scale fees for the valuation of freehold or leasehold properties, as recorded in the June 1978 statement of the Royal Institution of Chartered Surveyors, were 0.525 per cent up to £2,000; 0.263 per cent on the next £23,000; and 0.175 per cent on the residue of the valuation.

ation of the land alone would have cost £375 or 188 per cent of the tax liability. Obviously the ratio of professional valuation cost (compliance cost) to tax liability falls as the size of the estate rises, both because of lower rate valuation fees and the larger proportion of taxable estate above the threshold; but it would remain substantial and, given the scale fees, could never be less than 18 per cent of the liability. However, valuers did not usually charge scale fees for WT valuations and the actual fees tended to be low. Furthermore, the relative compliance cost falls over time as the professional valuation can usually be up-dated simply.

*The Valuation Office.* The statutory function of the Valuation Office was the valuing of properties for the purpose of charging Rates, which, as we have seen, was done by means of formulae with little relationship to market value. The Valuation Office, however, also conducted work for the Revenue Commissioners relating to valuations for Death Duties and Stamp Duties payable on real property. Accordingly, the Office consisted of two sections – the Rating Section and the Market Value Section – and, because the function of Rating was given the greatest emphasis, few among its staff were trained and experienced in the field of professional valuation in the context of open market values. The referral, to the Office, of a valuation for tax purposes was at the discretion of the Revenue Commissioners and, despite the increased frequency of referrals, this remained the case on the introduction of the capital taxation package (WT, CAT and CGT). Thus, the Valuation Office acted as an agency for the Revenue Commissioners.

Valuations for tax purposes were the responsibility of the Market Value Section and, in response to the requirements of the new capital taxes, this section was expanded in 1975 with the recruitment of professional valuers. Competition from the private sector was severe at that time with the result that recruitment was a slow process and the Valuation Office may not have got the best candidates. A further complication arose in that staff were allocated between the two sections on the basis of necessity and, since Rating had a statutory date for completion (1 December each year), staff were often transferred to the Rating Section for a period towards the end of each year. While such staff, and possibly an extra complement of valuers, would revert to market valuing afterwards, these transfers led staff of the Market Value Section, which was generally understaffed and overworked, to feel that they were being redeployed, unnecessarily and involuntarily, to Rating work each year. A certain amount of bad feeling between valuers and management was generated in this way.

The Valuation Office had a number of sources of information available for making a valuation and, in the context of the WT, the foremost was Form

W.6 which was the description of property and assessed value presented by the taxpayer. The most important information in the form for the Valuation Office was the exact location and ownership of the property (although details on acreage, Rateable Valuation, rents and outgoings, and an estimated market value were also asked for) so that they could identify the property on their books. However, this form was frequently filled in incompletely by the taxpayer's agent resulting in extra work for the Valuation Office, especially where the location was not clearly defined. In such a situation, the agent would be requested to present more information.

Having identified the exact property the office could check the validity of the agent's estimate of market value against their own files. The first step would be to check the property in the files on Rateable Valuations which should include some details on the nature of the property. The Valuation Office would also check to see if the property, or a part thereof, had previously been valued for other taxes (e.g., Stamp Duty or ED). Finally, the property would be compared with any "Particulars Delivered" relating to similar properties and property in the same area. The Valuation Office receives a Particulars Delivered Form, for every property sold in the State, which provides basic details on the property, transfer ownership and realised sale value. In the light of a cross-check with such files, the official valuer should be able to assess the accuracy of the value presented by the taxpayer. If the Valuation Office considered the taxpayer's value to be too low, they must present their own value, which implied that either the property be inspected or the Valuation Office present a value based on relevant or comparable information in their files. Ideally, the property should be inspected.

It seems unlikely that the practice of WT valuations conformed exactly with these procedures. There are two conflicting views on how effectively the Valuation Office operated, that of staff and that of management, which will both be presented because the balance is probably somewhere in between.

The basic disagreement lay in the view of the usefulness of the information in the Valuation Office files and the resultant need to inspect properties. Management felt that the information contained in Particulars Delivered, Rateable Valuations and files for other taxes, provided a substantive pool of information which was enhanced by daily contact and discussion between valuers. In cases where an inspection was required, it was carried out; but many properties did not require inspection because the files contained sufficient information, or the properties had previously been inspected for another purpose. The conflicting view has been presented by Mr G. Maxwell, General-Secretary of the Union of Professional and Technical Civil Servants:

> Staff in the Valuation Office were not allowed to follow the nor-

> mal valuation procedures which operate in private practice . . . In the majority of cases, valuers were not even allowed to see the property . . . and . . . were forced to form opinions of valuations using Ordnance Survey maps produced in the 1800s and other outdated documents. (*Irish Times*, 30/3/1983).

The staff view was that the available files provided inadequate information: (i) the only means of identifying the location of properties were Ordnance Survey maps which were over 100 years old; (ii) Rateable Valuations of properties, even if not out of date, bore no necessary relationship to market value; and (iii) the details in Particulars Delivered need not have related to the property in question and did not provide sufficient data for comparative purposes. Accordingly, it was felt that accurate valuations required the inspection of properties[41] but this was rarely done. No official estimates have been published, but unofficial estimates claim that only about 2.5 per cent of WT cases were inspected. The situation was compounded by the fact that there were only ten staff assigned to capital taxation valuations and (as mentioned above) these were often transferred to other duties.

A second area of disagreement between the management and staff sides of the Valuation Office related to the general approach to valuation and, in particular, the incidence and extent of undervaluation. The management side reject the view that there was serious undervaluation but accept that valuations tended to be on the lower rather than the upper range of value. This was justified because valuation is not an exact science and the Valuation Office simply wanted a "fair" value which would generate a reasonable tax return; they did not desire to squeeze the last penny from the taxpayer; and, in any case, with a tax of one per cent, pressing the taxpayer about small differences of value would not have been cost effective.

Whilst there was general agreement that many W.6 Forms were not properly filled out, the valuation staff attached more importance to this deficiency than the management side, arguing, in particular, that inaccurate descriptions and non-disclosures of property were impossible to rectify without inspection. It was also argued that there was little supervision, or checking, of the values agreed by staff members so that, effectively, each valuer could set his own standards. While some valuers were conscientious and sought to extract the correct value, others may have accepted low values so as to get through their workload more quickly.

Undervaluation could arise in three ways: by the incomplete description of property; by non-disclosure of property; and by unduly low values

41. Since June 1982, this view has prevailed and Valuation Office staff only value properties they have inspected.

placed on particular properties. There is no way of estimating the frequency or extent of this undervaluation but it seems likely that there was some undervaluation in each of these ways. The only sure way of preventing it was by inspecting the property and this was not done – perhaps could not be in cost effectiveness terms – on a sufficient scale to counter it. Undervaluation reduces WT yield both by reducing the taxable wealth of WT payers and pulling some people below the WT threshold. Statements by accountants and others strongly suggest that, especially in rural areas, pressure was exerted on auctioneers to submit undervaluations so that no WT liability would arise.

*Personal and Financial Assets.* So far we have been concentrating on valuation issues with respect to real property which comprises a major part of property in Ireland. Procedures with respect to personal and financial property were not dissimilar save that it was the valuation section of Revenue and not the Valuation Office which was involved. More important, there was no question of inspecting the property. As we have earlier noted, the valuation of personal property was simplified by wholly exempting the contents of the house. The valuation of private non-trading companies was simplified by treating them as separate entities. The biggest area of difficulty was in respect of private trading companies where negotiations between the accountant as taxpayer's agent and the valuation section of the Revenue took place. In general, the Revenue valued on a real assets basis and the number of serious disagreements seems to have been small, perhaps because the valuations were fairly generous to the taxpayers. The Revenue suffered from similar staff deficiencies to the Valuation Office.

*The Process of Agreeing a Valuation.* Let us conclude this section by reviewing the general procedure and the evidence on undervaluation.

The agents of the taxpayer submitted their return with its estimates of value to the Revenue Commissioners. If the property was real property it might be referred to the Valuation Office who, through the Revenue, would notify the taxpayer if the value was to be contested. The taxpayer's agent and the Valuation Office would discuss details of the property. If the Office was dissatisfied they would present their own valuation (to the Revenue, who would generally accept it) to which the taxpayer could object. If further negotiations failed to produce an agreed settlement the case could go to arbitration. In the period 1975-1983 the Valuation Office handled 7,322 WT cases.[42] In many of these the taxpayer's submitted value was accepted.

42. The term case refers to a return per person per valuation date (therefore a person paying WT in each of the three years would constitute three cases).

(It would only be challenged if there was a substantial difference between the taxpayer's valuation and that of the Office.) Of those which required further negotiation, 1,316 led to objections. No cases went to arbitration, which is perhaps not as surprising as it sounds given the high costs in time and fees for the taxpayer relative to the possible tax saving. With personal and financial property the procedure was similar except that negotiations were with the Revenue's own valuation department.

There are three general reasons for believing that undervaluation quite frequently occurred:

1 The introduction of three capital taxes in a context where neither the Valuation Office nor the Revenue had had adequate time to prepare led to the rapid creation of an administrative backlog which in its turn was a big disincentive to contesting valuations.
2 The disincentive to contest WT values was fuelled by the low, one per cent, rate of tax, which meant that the revenue to be obtained from a successful challenge was low, both absolutely and relative to costs.
3 Due to lack of staff resources, and given the problems outlined above about the functioning of Valuation Office staff, particularly in regard to the inspection of property, the Valuation Office was at a disadvantage *vis-à-vis* the taxpayer in contesting a submitted value. The agents of the taxpayer naturally viewed their role as being to minimise the liability of the taxpayer and were often in a position to get the best of an encounter.

One argument used to counter the view that substantial undervaluation occurred is the effect of the relationship between WT and CGT. A low value for WT would result in a higher liability for CGT if the property were subsequently disposed of and a gain realised. Conversely, a valuation which had been on the high side to minimise CGT would result in a higher WT liability. This argument is valid if, and only if, the values determined for one tax were held to be valid for the other or taxpayers thought this would happen and acted accordingly.

To some extent, it was true that valuation for one tax would affect valuations for the other. Thus, in negotiations over WT value, if an official valuer could produce a CGT value his hand was much strengthened in negotiation with the taxpayer and his agent. Not infrequently the valuer who had agreed a CGT valuation for a property would also be the valuer for WT for the same property as, at any rate in respect of real property, valuers had their own "patch". But the extent to which this happened can easily be exaggerated. To start with, CGT only came into effect as from April 1974. Thus there would be few items of property for which CGT valuations existed at the

time WT valuations were required. Moreover, valuation dates would rarely coincide, and the base date for CGT, April 1974, was not a date to which WT applied. Further, although in determining WT values valuers might informally take account of a CGT valuation when one existed, there was no statutory requirement which said that the value for one tax had to be the value for the other; and the fact that WT (administered by Capital Taxes branch of the Revenue) and CGT (administered by the Income Tax branch) were not administered together, did nothing to facilitate cross checking. The conclusion must be that a significant amount of undervaluation occurred.

*Reflections on the Role of the Civil Service*

At the beginning of the chapter we outlined three theories about the behaviour of bureaucrats. How far does the role of the civil servant in the WT story support any (or all) of these models? This question, in its turn, can be subdivided into three questions: what role, if any, did the civil servants play in policy making as against policy implementation? Were there any indications of the incremental approach intruding or holding sway where a more radical approach might have been preferable? Finally, is there evidence of internally-generated goals influencing civil service behaviour?

The fact that so little preparatory work had been done by the Coalition parties on the subject of a wealth tax would seem to offer the maximum opportunity for the bureaucrats to determine, or at least influence, policy. In the event, whilst the civil servants, undoubtedly, had to undertake much formulation of policy, the decision making was all ministerial. Some, at any rate, of the civil servants would have preferred a reformed ED to a WT. On the two occasions in which it was put forward the proposal was effectively thrown out by ministers. Once it was clear that there would be a WT the civil servants sought one as simple as possible with minimum exemptions. In fact, what emerged, was a WT riddled with special reliefs. Political considerations, the influence of interest groups and the unwillingness of ministers to stand up to them, determined the outcome. The civil servants' influence on the broad shape of the capital tax reform was negligible or nil. Similarly, once the tax was in operation, they had wished to retain and improve it, not abolish it. But their views did not prevail. In relation to the WT, the traditional views prevailed of the civil service as implementers with the ministers being the decision makers.

There are rather more signs of the incremental approach amongst the administrators. The attempt to induce the Cabinet sub-committee to accept a reform of ED instead of a new WT might be said to reflect the natural conservatism of the bureaucrats. When this came to naught, to adopt ED

administrative methods wholesale, (in particular open market valuations for all assets) for a tax which differed in important respects from ED was a clear example of the cautious incremental approach. A radical rethinking of methods might well have been preferable; but this was made the more unlikely by the wholesale transfer of staff from the old ED office to administer WT.

Finally, in the details of administration, it is possible to discern the influence of internally-generated goals. They are doubtless reflected in the differing views of the management and staff of the Valuation Office, the first concerned to present the most impressive picture possible of the efficiency of administration, the second concerned to make as strong a case as possible for more staff (and more union members). It is also not unreasonable to believe that one of the causes of the undervaluation of assets was the natural reaction of staff not to contest cases when there was a massive backlog of work.

The findings of this chapter prompt one further reflection, which is perhaps an outcome of the traditional role of the civil service allied to their incremental approach. It is clear that, although deficiencies in ED had been obvious for some time, neither Revenue nor the Department of Finance had prepared alternatives to present to ministers to meet the problem. If the Revenue had a research facility which anticipated necessary tax modifications, politicians might be saved from the more extreme pressures which are apt to lead to promises and actions which are hasty and ill considered (see Chapter 11).

While this chapter has said much about administrative methods, it has said little or nothing about the costs of administering the tax. This topic is considered in the next chapter, which looks at both administrative and compliance costs as part of the economic effects of the WT.

## Chapter 8

## *ECONOMIC EFFECTS I – ADMINISTRATION AND COMPLIANCE COSTS*

This chapter and the next seek to analyse the economic effects of the WT. On some of the economic issues, notably the resources taken up in running the tax, it has been possible to gather some hard data. On other issues, such as the effect on the flow of investment funds, allegations are easier to come by than evidence. One issue, which by its very nature is nebulous, may none the less be of very considerable significance, i.e., the psychological effects of the tax. On some aspects, reliance has had to be placed almost wholly on theoretical analysis, because the empirical evidence is unavailable, or the effects too small to be identifiable. Inevitably, therefore, because of the nature of some of the issues and the limitations of the evidence, some of the findings on economic effects are very tentative.

The discussion proceeds broadly, from the most direct, clearly identifiable and, at least partially, measurable effects to the least identifiable and measurable. Thus, this chapter considers the administrative and compliance costs. The next chapter looks at the effects on economic structures, in particular the PNTs and Discretionary Trusts; considers the effects on savings, investment and the flow of investible funds and possible effects on resource allocation. Finally, psychological effects are examined.

### *Definitions and Distinctions*

The costs of running or operating a tax consist of administrative costs and compliance costs. Administrative costs are the costs incurred by the revenue authorities. Compliance costs are the costs incurred by the taxpayer in meeting the requirements of the tax. Compliance costs are over and above the money paid to the tax authorities and over and above any distortion costs – welfare losses the taxpayer suffers because the tax has induced a less preferred pattern of economic behaviour. For example, an income tax may have led a taxpayer to undertake less paid work than he would have done had he been able to retain all the income from that work. Compliance costs may also be incurred by third parties, people other than the taxpayer, most importantly, businesses. Businesses incur compliance costs arising from taxes imposed on their products (e.g., VAT), their employees (e.g., PAYE income tax) or their profits (e.g., corporation tax). In such cases the effective incidence of the compliance cost is not immediately clear. With a WT on individuals

there is no complication of compliance costs on third parties; and even with WT on PNTs and Discretionary Trusts, although the cost is formally met by these organisations, it will effectively fall, like the tax itself, on the shareholders and trust beneficiaries respectively.

There is often a trade-off between administrative and compliance costs; different methods of operating a tax distribute the burden of costs differently between the two. As seen in the previous chapter, the methods adopted with the Irish WT tended to weight operating costs against the taxpayers. More specifically, unlike the situation with most WTs in Europe, the onus was on the Irish WT payer to present to the Revenue authorities an open market value of his property. He did not have the benefit of official valuations of certain classes of property, which would have reduced compliance costs at the expense of administrative costs.

In considering the trade-off between administrative and compliance costs there is a strong argument for tilting the balance towards administrative and, away from, compliance costs. Administrative costs are met from taxation and it can be assumed that they are spread across the population in accordance with government policy on the overall incidence of taxation. Compliance costs tend to be more haphazard in their incidence and are frequently regressive. Further, because compliance costs are less obvious to governments, they are less subject to review. Moreover, the imposition of high compliance costs may generate particular hostility from taxpayers, who feel that paying taxes is bad enough, but to have to incur substantial costs on top is to add insult to injury.

The composition of the administrative costs of tax is relatively straightforward. Administrative costs are the wages and salaries of staff administering the tax, the rental of the buildings in which the tax officials are housed, the costs of heating, lighting and cleaning the buildings. To these must be added relevant staff training costs and any exceptional costs, like the expenses of a legal action to clarify tax liability. All these costs are generally in the nature of financial outlays. But where buildings are owned by the State, or for historical reasons are rented at below market levels, the administrative cost properly includes the true economic cost, i.e., the rental which could be obtained if the premises were let on the open market. The biggest difficulty in establishing the administrative cost of a particular tax arises where more than one tax is administered by the same office or using common staff. Then, unless special arrangements are adopted or special calculations are made, the cost of one particular tax is not identifiable.

The compliance costs of a tax may take any or all of three forms — money costs, time costs and psychic costs. Money costs constitute financial outlays such as fees to professional advisers like accountants or valuers, and, less

significantly, costs of travel and postage to visit professional advisers or the revenue authorities. Time costs are the time a taxpayer spends on his tax affairs, completing tax returns, filing documents and writing to, or talking with, his advisers or the revenue authorities. Finally, psychic costs are the anxieties which tax affairs may generate in the taxpayers' mind, often based on incomprehension, or only partial comprehension, of the tax forms and the tax legislation. Besides regular costs there may be exceptional costs such as the costs of a legal action.

As with administrative costs, there are problems of identifying and separating out the compliance costs of a particular tax. Where professional advice is given, a composite account is often rendered in respect of several taxes or of tax work and other work such as auditing — and, indeed, there is an overlap in the work. More significantly, with compliance costs there is the particular problem of valuing non-monetary costs. For some taxes and some taxpayers time costs may be the main or sole component of compliance costs. Whilst attempts can be made to put a monetary value on such cost, the values are necessarily somewhat arbitrary. With psychic costs valuation is almost impossible.

Some important categories of administrative and compliance cost need to be distinguished. With a new tax we can, in principle, identify "commencement", "temporary" and "regular" costs. Commencement costs are costs incurred once and for all, before or at the start of a new tax; for example, commencement administrative costs would include the special initial training cost for all staff. Commencement compliance costs might include the cost to a taxpayer in equipping himself with the necessary information or machine (like a new calculator or till) to handle the tax. Temporary costs (administrative and compliance) are the element of costs in the early stages of a tax (or following a change in an existing tax) which arise from unfamiliarity with it. Regular costs are that level of administrative or compliance costs which is continuous once the parties have become used to the tax. In other words there is the familiar "learning curve" effect. With a new tax the level of administrative and compliance costs can be expected to fall somewhat over time as tax officers and taxpayers respectively become used to it. Where taxpayers are using professional advisers, the advisers have to acquaint themselves with the new tax and have to learn the best ways of dealing with it; they incur commencement and temporary costs which will be reflected in the fees they charge their clients.

An important distinction can be drawn between compliance costs which are incurred in the necessary fulfilment of legal obligations and additional costs which a taxpayer may undertaken in order to reduce his tax liability. The former may be termed the mandatory or non-discretionary compliance

costs, the latter, the discretionary costs. It can be argued that only the mandatory or non-discretionary costs should properly count as costs of compliance with tax legislation because the discretionary costs are voluntarily incurred. On the other hand, even the discretionary costs are an inevitable consequence of the operation of a tax and represent the utilisation of real resources in a way which would not have taken place, but for the tax. None the less there is an important difference in kind between these two types of cost which it is desirable to distinguish – though the separation may not be easy where a professional adviser submits a composite bill for advice covering both aspects.

### *Administrative Costs*

No official estimates have been published of the administrative costs of the Irish WT. Wealth Tax was administered from the same office as Capital Acquisition Tax using services from the Valuation Office common to a number of taxes and it is unlikely, had WT survived, that any separate official estimates of its administrative costs would have emerged. Currently no separate costs of collecting capital taxes are published.[43] At the time of the OECD study, for which evidence was collected in 1977/78, the Office of the Revenue Commissioners recorded that no estimates could yet be made of the administrative costs of capital taxes "because of their newness" (OECD, 1979, p. 125). This is readily understandable, for not only would the early years of any year by year estimates of administrative cost be heavily weighted by the once and for all commencement costs and the temporary costs, the delay in bringing in revenue would have further distorted the picture. We are, therefore, left to make our own judgement on the order of magnitude of the administrative costs from our knowledge of the methods of administration used and other general observations and experience.

There can be no doubt that, compared with the average costs of administration per £1 of revenue raised in Ireland, the administrative costs of WT were high. This observation is based on the fact that WT was administered in a similar manner to the former ED and over the five financial years 1968/69 to 1972/73 the administrative costs of death duties (of which ED contributed 90 per cent of the revenue) varied between a low of 2 per cent of yield (1968/69) and a high of 3.6 per cent (1970/71) averaging 2.64 per cent (see Table 8.1). This compares with the published average for Inland Revenue duties of 1.86 per cent over the same five years.

43. In a written reply to a Parliamentary Question from Mr Richard Bruton (19/6/84) the Minister for Finance (Mr Dukes) stated: "It is not possible to isolate the cost of collecting capital taxes from the overall cost of the administration of the Inland Revenue duties as a whole."

Moreover Table 8.1 clearly shows that fluctuations in the cost/yield ratio owe more to variations in yield than to variations in cost. The yield of WT (which, excluding interest, averaged about £5 million per annum over the period of its existence) was substantially less than ED. At the same time, the average number of WT returns at around 4,500 of which just over one half were individuals (Table 2.3), was significantly higher than the annual average of ED returns at 2,917 for the years 1968/69-1972/73. This suggests a significantly higher cost/yield ratio than ED. A rough estimate might be as follows. The average cost per ED return, 1968-73, was £76.52. If we assume the same average cost for WT returns, 1975-78, the total administrative cost for WT (annual average) was £348,549 and the cost/yield ratio 6.97 per cent. However, this would be an underestimate. It applies a cost figure derived from an average for the years 1968-73 to the years 1975-78. Between 1970/71 and 1976/77 (the mid-points of the respective periods) consumer prices rose 100 per cent and wage rates by even more. If administrative costs rose correspondingly we would expect the WT ratio of cost/yield to be around 14 per cent. To this must be added an allowance for the newness of the tax.[44]

Table 8.1: *Yield and collection cost of death duties, 1968-73*

| *Year* | *Yield £000s* | *Cost £000s* | *Cost as per cent of yield* |
|---|---|---|---|
| 1968-69 | 7,613 | 154 | 2.0 |
| 1969-70 | 7,699 | 190 | 2.5 |
| 1970-71 | 6,307 | 226 | 3.6 |
| 1971-72 | 9,041 | 260 | 2.9 |
| 1972-73 | 13,227 | 286 | 2.2 |

*Source:* White Paper on Capital Taxation, p. 9.

44. The Revenue Commissioners have privately provided an alternative estimate, by a different method, which gives a much lower figure but still one nearly twice the average for Inland Revenue taxes. Their calculations are as follows:

| | |
|---|---|
| Cost of Administration of the Office of the Revenue Commissioners for year ended 31 December, 1977 | £29,667,000 |
| Staff of said Office for 1977 | 5,966 |
| Staff employed directly on Wealth Tax in 1977 | 25 |
| Cost of administration of Wealth Tax in 1977 (direct): | |
| $£29{,}667{,}000 \times \frac{25}{5{,}966}$ i.e., | £124,317 |
| Add cost of valuation and other services (say 50% of above) | £62,158 |
| Total cost of administration of Wealth Tax in 1977 | £186,475 |
| Net receipt from Wealth Tax in year ending 31 December, 1977 | £5,806,066 |
| Cost to yield ratio, 1977: $\frac{186{,}475 \times 100}{5{,}806{,}066}$ | 3.21% |

Assuming WT had been retained and the rate had remained at one per cent, the relatively low yield and large number of returns would have continued to keep up the cost/yield ratio compared with ED. In other respects the costs might have been expected to fall as the learning effect applied.

In one specific way the administrative costs may have been kept low. Senior officials in the Inland Revenue at the time, officials in the Valuation Department and accountants dealing with the Revenue Department have all stated that the WT was administered with inadequate staff in quantity and quality. The consequent delays put up the costs of compliance, possibly in financial terms (if accountants had to write additional letters on behalf of their clients) and certainly in terms of psychic costs – increasing taxpayer frustration. Whilst inadequate staff numbers may have kept annual staffing costs low, it must be doubtful whether it improved revenue/cost ratios because it may well have delayed the receipt of revenue.

### *Compliance Costs*

If there is little published information on which to make an estimate of the administrative costs of WT, there are no published data at all relating to the compliance costs of the tax.

#### *Sample Study of Wealth Tax Payers*

With the aid of a firm of accountants, (henceforth referred to as the "co-operating accountants") a special study was undertaken by the research team of the compliance costs of a sample of WT payers. A pro forma was worked out between the researchers and the co-operating accountants and, on a strictly anonymous basis, with no possibility that the researchers could identify individuals, information drawn from the files of all WT clients of the co-operating accountants was recorded by them on the pro formas. In all, 142 individual cases were treated in this way including nine where WT returns were prepared but, in the event, no WT was payable because the assessed wealth came out at a figure below the threshold. The 133 cases where WT was payable constituted a sample of some five to six per cent of the total of individual WT payers (see Table 2.3). Data for the sample cases were recorded for each of the three years of assessment, but, because of delays, accountants' and other fees often related to more than one WT return; for this reason an "annual average" has been calculated as likely to give the most accurate picture of the situation. This treatment is similar to that found necessary with the data in the Revenue Commissioners' Reports, (see p. 168). Thus the two sets of data are directly comparable in this respect. However, in four cases data were not available for all three years and these cases have therefore been omitted from the annual averages.

Where the co-operating accountants' bill covered other work besides WT, a senior accountant, who had been responsible for much of his firm's WT work, recorded his assessment of what part of the bill properly related to WT.

We mentioned earlier the importance of distinguishing between discretionary and mandatory costs. The co-operating accountants' fees recorded in the study can be regarded as referring entirely or almost entirely to mandatory costs. The tax planning work in relation to WT by the co-operating accountants took place almost wholly between the date of publication of the White Paper and the date of first assessment. The fees charged for that work are not included in the following figures.

*Individual Wealth Tax Payers*

The sample consisted of 91 per cent male and nine per cent female taxpayers. Seventy-nine per cent were married, and of those who gave details of age, just over 70 per cent were in the age range 40-59 years. About one-third of the sample of WT payers had no children, 44 per cent had three or fewer children and the remaining 23 per cent had four children or more. Table 8.2 gives a broad classification of the occupations of the sample of WT payers.

Table 8.3 gives the annual average values per WT payer in the sample over the three years 1975/77 inclusive of the various assets, taxable and exempt, together with the average liability. It should be noted that the asset values in the table relate to the value of the assets for WT purposes – i.e., after allowance for the relief to which various categories of asset were eligible.

Table 8.4 gives the annual average of co-operating accountants' fees per WT payer, together with such other financial outlays on compliance costs as the co-operating accountants were aware of.

Table 8.2: *Recorded occupation of sample of wealth tax payers*

| *Occupation* | *Per cent (N = 133)* |
|---|---|
| Company director | 20.3 |
| Farmer only | 18.8 |
| Proprietor | 18.0 |
| Investor | 9.0 |
| Retired | 6.0 |
| Medical and dental professional | 5.3 |
| Employee | 5.3 |
| Farmer with other occupation | 4.5 |
| Other | 12.8 |

Table 8.3: *Average assets per head per annum and average liability (for WT sample)*

| *Taxable assets* | £ | *Per cent of net taxable assets* |
|---|---|---|
| Business assets | 105,206 | 44.8 |
| Non-business land | 21,739 | 9.3 |
| Irish non-business shares | 28,891 | 12.3 |
| Foreign shares | 32,075 | 13.6 |
| Cash | 9,555 | 4.1 |
| Life policies | 1,523 | 0.6 |
| Trusts | 17,533 | 7.5 |
| Cars | 1,790 | 0.8 |
| Yachts | 1,389 | 0.6 |
| Jewellery | 740 | 0.3 |
| Other taxable assets | 31,778 | 13.5 |
| Total | 242,219 | 107.3 |
| Less loans | 17,229 | 7.3 |
| *Net taxable assets* (Assessed wealth) | 234,990 | 100 |
| Average liability* | 1,360 | |
| *Exempt assets* | | |
| House | 50,479 | |
| House contents | 11,718 | |
| Bloodstock | 6,950 | |
| Other exempt assets | 1,277 | |
| | 70,424 | |

*Liability was one per cent of the excess of taxable assets over the threshold. Thresholds differed according to the marital status and number of dependants of the taxpayer. The threshold in respect of the table is an average threshold for the sample.

Table 8.4: *Money compliance costs of sample of wealth tax payers*

| | *(Annual average per capita)* £ |
|---|---|
| Co-operating accountants' fees | 190.04 |
| Other accountants' fees | 29.91 |
| Valuers' fees (including stockbrokers') | 18.37 |
| Solicitors' fees | 13.41 |
| Average financial compliance cost | 251.73 |

Thus the picture presented by Tables 8.3 and 8.4 is of the WT payers in the sample as having, on average, assessed wealth (i.e., gross wealth less debts, exempt assets and reliefs) of around £235,000 with exempt assets of around £70,000 (almost certainly an undervaluation) and therefore gross wealth of upwards of £300,000, indeed, it could have been considerably more after allowing for reliefs. The average WT liability was £1,360 and the average known compliance cost on financial outlays was £252 or 18.5 per cent of liability.

In considering the compliance cost figures it must be stressed that they represent a minimum estimate. They relate solely to *known financial* outlays, i.e., compliance costs in the form of monetary outlays known to the co-operating accountants. The main component of such costs was, of course, the fee paid by the client to the co-operating accountants, which is accurately known; but some other fees may have been paid, e.g., to valuers, without the co-operating accountants having a record, and small financial outlays, like travel costs and postage, were not noted. Further, these figures of compliance cost take no account at all of the time costs of WT payers or of any psychic costs.

A limited amount of data on non-money costs was collected: the co-operating accountants recorded on the pro formas the number of letters written annually in respect of each case to, and by, the client, the number of visits the client made to consult with his/her accountant and the number of other visits known (e.g., to solicitors or to the Revenue Department). The figures are recorded in Table 8.5.

Table 8.5: *Non-monetary compliance costs of sample of wealth tax payers*

| | *(Annual average per capita)* £ |
|---|---|
| Letters written to and by client | 12.7 |
| Client's visits to co-operating accountants | 6.8 |
| Other client visits | 0.3 |

The table does not include time spent in telephone calls nor time taken up by clients in searching out and filing data needed by the co-operating accountants or other professional advisers, including the completion of a preliminary qeustionnaire which the client was sent by the co-operating accountants to establish whether liability was likely and what information would be needed to enable the WT return to be completed accurately. The difficulties of obtaining accurate figures of the total time costs of WT payers and of putting a realistic value on their time are considerable; no serious attempt

was made in this study to make such estimates. Given the high threshold of the Irish WT and the way it was administered, virtually all individual WT payers would have employed professional advisers, and their fees constituted the main component of compliance costs (unlike, for example, VAT). The study therefore concentrated on that major and measurable aspect of compliance cost. But perhaps some idea of the general magnitude of the non-monetary costs can be obtained by making some arbitrary assumptions. Thus, if we assume, on the basis of the figures in Table 8.5, that half the letters were written by clients and that each letter and each visit took an hour,[45] and that (say) a further six and a half hours per annum was spent by WT payers in the other ways described (e.g., telephoning, searching out data and completing the questionnaire) then, on average, the WT payers in the sample would have spent about 20 hours per annum on WT work. If, again arbitrarily, we value such time at £5 per hour, the time costs of WT payers would, on average, add another £100 to the compliance costs. It does not seem unreasonable to believe that the time costs of WT payers might have added the equivalent of another one-third to their compliance costs.

As for psychic costs, the very fact that a professional adviser was used takes much of the anxiety out of tax compliance. However, honest taxpayers might have been excused for feeling that they had incurred some psychic costs of frustration at the delays and uncertainties which were perhaps inseparable from a new tax and an understaffed Revenue office. Other WT payers merit less sympathy for anxieties they may have felt that their WT return might disclose information which would lead the Inland Revenue to look more closely into their other tax affairs!

To average the data from the sample, as in the foregoing text and tables, is interesting but leaves many questions unanswered. Moreover, the arithmetic average gives a picture which relates to no actual WT payer. It is necessary to examine the data more fully, to look, in particular, at the distribution of the compliance costs and at what features led to high compliance costs.

Reverting to the figures of minimum financial compliance costs and examining compliance cost/tax liability ratios on a case-by-case basis, it is found that the median cost/liability ratio was as high as 28 per cent (compared with the average of 18.5 per cent). In fact, for 54 per cent of the sample, compliance costs were at least a quarter of tax liability. Moreover, there were 22 cases (or about 17 per cent of the sample) where compliance costs were in excess of liability.

45. An average of one hour per letter may be an overestimate but is compensated for by the fact that clients' letters, which included those to Revenue, etc., were more than half of the total.

The relatively high median and the significant proportion of WT payers with cost/liability ratios in excess of 100 per cent suggests that high liability WT payers had relatively low compliance costs. In other words, it seems likely the compliance costs of WT follow the regressive pattern that studies of the compliance costs of other taxes have suggested (e.g., Bryden, 1961; Johnstone, 1961; Muller, 1963; Sandford, 1973; Sandford *et al.*, 1981; Sandford *et al.*, 1983). Table 8.6 bears this out. If we group tax payers in categories relating to net taxable assets (or assessed wealth) whilst in absolute terms compliance costs rise with size of wealth holding, the figures of cost as a percentage of liability fall markedly as wealth holding increases. Even for the very largest wealth holdings, however, compliance costs remain a sizeable percentage of tax liability.

The first category in the table, under £125,000, will imply rather different amounts of taxable wealth because of the different thresholds relating to individual circumstances; but the message from the table could hardly be clearer.

The regressive pattern is partly accounted for by the existence of the high threshold. The cost/liability ratio is bound to be high for those just above the threshold. But the persistence of the pattern over virtually the whole range suggests that, as with other taxes, there are economies of scale in tax compliance work; for example, surveyors' scale fees fall with size of real

Table 8.6: *Compliance costs as a percentage of tax liability: sample of wealth tax payers (annual averages)*

| *Net taxable assets (assessed wealth)* | *Average compliance costs* | *Average liability* | *Compliance costs as % of tax liability* | *Number of cases* |
|---|---|---|---|---|
| £ | £ | £ | | |
| Above threshold but under 125,000 | 117 | 157 | 75 | 28 |
| 125,000-149,999 | 202 | 394 | 51 | 19 |
| 150,000-174,999 | 193 | 618 | 31 | 19 |
| 175,000-199,999 | 248 | 828 | 30 | 16 |
| 200,000-249,999 | 302 | 1,305 | 23 | 15 |
| 250,000-299,999 | 294 | 1,596 | 18 | 13 |
| 300,000-399,999 | 302 | 2,298 | 13 | 7 |
| 400,000-499,999 | 676 | 3,422 | 20 | 4 |
| 500,000-999,999 | 400 | 5,637 | 7 | 5 |
| 1 million and over | 836 | 13,435 | 6 | 3 |
| All sizes | 252 | 1,360 | 18.5 | 129 |

property to be valued (p. 98); and it takes as much time to value a small holding of shares in a private company as a large holding.

The one exception to the trend in the table is the range £400,000-£500,000, in which there are only four cases. The explanation is to be found in one case where there were problems in agreeing the value of a large trust with the Revenue. In this case professional fees amounted to £1,550, representing 51 per cent of tax liability. If this case is omitted, compliance costs as a percentage of tax liability for that wealth category fall to 11 per cent, maintaining the pattern of the table.

Besides size of assessed wealth, analysis reveals other characteristics which made for high compliance costs. There were strong positive relationships between compliance costs and the value of business assets.[46] Business assets (which included agricultural land) often required special valuation and that valuation might be the subject of protracted negotiation with the WT office. Moreover, such valuations would often require the participation of principals from the professional firms employed (see below). Another area of high correlation was between compliance cost and the value of assets held in trust.[47] Such assets would require separate treatment and would often involve real property or business assets; also the advice of other professionals besides the co-operating accountants, was frequently called on.

The pro formas for the sample of WT payers recorded the approximate proportions of time spent on the case by different grades of staff. As was to be expected, the higher the percentage of partners' time as compared with that of other grades of accounting staff, in general the higher the fee of the co-operating acocunts.[48] There was also a relationship between high partner percentage and other financial compliance costs,[49] implying that cases where partners were heavily involved were also those in which valuers, solicitors or other professionals were required. There was a weak correlation between partner involvement and tax liability.[50] Partners were invariably involved in cases which required the valuation of shares in closely-owned companies not because negotiations with the Revenue were invariably difficult (which they sometimes were) but simply because of the importance of the establishment of such share values, which might be used for other taxes, such as CGT or CAT, or in other business transactions.

There was a very weak relationship between compliance costs and the

46. Correlation coefficient (r) = 0.39 (n = 129) significant at 0.1 per cent level.

47. r = 0.48 (n = 129) significant at 0.1 per cent level.

48. r = 0.36 (n = 117) significant at 0.1 per cent level.
49. r = 0.29 (n = 115) significant at one per cent level.
50. r = 0.20 (n = 115) significant at 5 per cent level.

number of different kinds of assets in the wealth holding – the larger the range of assets the higher compliance costs tended to be.[51]

All the figures which we have so far analysed from the special sample related to actual WT payers. In considering the total of the compliance costs of the WT and the ratio of compliance cost to total tax liability (or tax revenue) regard must be had to those cases of people on the borderline of the threshold who had to incur compliance costs to establish that they were not liable to tax. The co-operating accountants provided data on nine such cases. The financial compliance costs known to have been incurred varied from a minimum of £22 to a maximum of £154 with an average of £62. Such people would also incur some non-financial compliance costs and some other minor financial costs like travel expenses. Whilst the financial sums are relatively small, the total numbers of non-WT payers incurring compliance costs may well be large. These were only examples of such cases from the co-operating accountants, not the total from amongst their clients. On the other hand, non-WT payers would often face compliance costs for one year only.

*Discretionary Trusts and Private Non-Trading Companies*

So far we have examined compliance costs for individual taxpayers only. Forty-eight per cent of taxable persons and 45 per cent of the net produce came from PNTs and Discretionary Trusts (see Table 2.3, p. 27). What do we know of compliance costs in relation to them?

The co-operating accountants furnished 12 cases of PNTs and Discretionary Trusts. Table 8.7 groups them together (because the numbers are small)

Table 8.7: *Private non-trading companies and discretionary trusts: liability and compliance cost for sample (annual averages)*

| *Range of net taxable assets (assessed wealth)* | *Average compliance costs* | *Average tax liability* | *Average compliance costs as per cent of tax liability* | *Number of cases* |
|---|---|---|---|---|
| Under £100,000 | 100 | 371 | 27 | 4 |
| £100,000-£200,000 | 176 | 1,462 | 12 | 5 |
| £200,000-£400,000 | 461 | 3,074 | 15 | 3 |
| All ranges | 222 | 1,501 | 14.8 | 12 |

*Note:* Includes one case relating to an average over two years only: no data available for 3rd year.

51. r = 0.15 (n = 129) significant at 10 per cent level.

according to range of assessed wealth and analyses the compliance costs. It will be seen that, on the basis of this very small sample, average tax liability is somewhat higher than the sample of individuals (£1,501 compared with £1,360) average compliance cost a little lower (£222 compared with £252) and compliance cost as a percentage of tax liability somewhat lower (14.8 compared with 18.5).

Because of the very small number of cases it would be wrong to seek anything but indications from Table 8.7. But certain features are of interest. Doubtless due mainly to the zero threshold of PNTs, and Discretionary Trusts as compared with the high threshold for individuals, the sample yields no cases in which compliance cost is in excess of liability (against 17 per cent of individuals). Table 8.7 would have shown the same clearly regressive pattern in compliance costs as Table 8.6 had it not been for one case out of three in the £200,000-£400,000 range where compliance costs were abnormally high because of problems in agreeing the value of non-quoted shares with the Revenue; this resulted in compliance costs of 40 per cent of tax liability in one of the three years and an annual average of 24 per cent.

*The Representativeness of the Sample*

In assessing the evidence from the sample of compliance cost cases there remains the vital question: how representative was it of WT payers as a whole?

Clearly, as we have already acknowledged, the sample of PNTs and Discretionary Trusts is far too small for any claim to representativeness. But it is none the less of interest that the compliance cost/tax liability ratio emerges as not much lower than that of the individuals sampled. The financial compliance costs for PNTs and Discretionary Trusts was clearly not dramatically less than that for individuals. Moreover, that conclusion emerges where the average tax liability for PNTs and Discretionary Trusts of the sample is above that of PNTs and Discretionary Trusts as a whole: £1,501 for the sample, taking PNTs and Discretionary Trusts together, against figures for WT as a whole of £944 for Discretionary Trusts and £1,153 for PNTs. The clearly observed tendency for compliance costs to be relatively higher for small wealth holdings than for large for all categories of WT payers, constitutes a *prima facie* reason for believing that the cost/liability ratio found in the sample PNTs and Discretionary Trusts is likely to be an underestimate for the total population.

The sample of individual tax payers is much more robust and worth comparing in some detail with the national data.

The Revenue Commissioners' data are divided into five categories of taxable asset (see Appendix A): Agricultural property; stocks and shares in Irish

trading companies; Other productive property eligible for relief; Class D property – situated in Ireland but not eligible for relief ("non-productive"); Class E property – foreign holdings ("non-state").

Unfortunately, an exact comparison of the sample data with the Revenue data is not possible, but the discrepancies are small. Most sample returns only listed a global "business assets" figure and hence it was not possible to separate business shares from other business assets in the sample responses. Consequently the sample figures slightly understate "other productive property" and overstate "stocks and shares in Irish trading companies". The other main problem was the identification of agricultural property. In the sample 18.8 per cent were recorded as farmer (only) and 4.5 as farmer with another occupation. As there was no means of distinguishing different business assets in these cases, even when a second occupation was mentioned all the business assets were recorded as agricultural property. This procedure will have had the effect of somewhat overstating agricultural property compared with the other classes of asset.

The difference between the WT payers who were clients of the co-operating accountants and the WT paying population as a whole were not surprising. The co-operating accountants constituted an urban practice with rather fewer farmers and a higher proportion of business men and owners of non-farming business assets than in the total population of WT payers. Further, the clients of the co-operating accountants were, on average, significantly wealthier than the average of WT payers.

What effect did these characteristics have on compliance costs? It might be thought that, because there was a significant positive correlation between

Table 8.8: *Comparison of national and sample data taxable assets of individual wealth tax payers*

| | *(annual averages)* | |
|---|---|---|
| *Class of taxable asset (assessed wealth)* | *Revenue data per cent* | *Sample data per cent* |
| Agricultural property | 23.5 | 15.3 |
| Stocks and shares | 22.2 | 38.0 |
| Other productive | 1.8 | 0.3 |
| Class D – "non productive" | 30.2 | 33.4 |
| Class E – "non-state" | 22.3 | 13.0 |
| | 100 | 100 |
| | £ | £ |
| Average tax liability | 1,161 | 1,360 |

compliance costs and size of business assets (above p. 115) and because the sample over-represented "stocks and shares" as against "agricultural property", that on this score the sample biased compliance costs upward. However, this oversimplifies the position, because agricultural property is a part of "business assets" in the sample. Indeed, if we take the group of ten farmers in the sample, 80 per cent or more of whose taxable assets were classed as business assets, we find that they had a tax liability well above average for the sample (average £2,181 against £1,360) and an average compliance cost/tax liability ratio also above the sample average (19.6 per cent against 18.5). Indeed the 24 non-farmers in the sample with 80 per cent or more of taxable assets classed as business assets, had a below average ratio of compliance cost to tax liability. Clearly a main reason for the high positive correlation between compliance cost and business assets was the presence of those farmers in the sample.

The reality is that agricultural assets are often expensive to value, including land valuations which may be challenged by the valuation office; and shares in private, closely-owned trading companies give rise to valuation problems. But stocks and shares in Irish publicly quoted companies raise few problems. Our sample data do not permit a sufficiently refined analysis to enable us to say whether the asset composition tends to upward or downward bias in the compliance costs of individuals; but, at least, there is no obvious upward bias.

The other feature of the sample almost certainly under-states the compliance cost/tax liability ratio for the WT paying population as a whole. The clients of the co-operating accountants tended to be wealthier than the average individual WT payer. Average tax liability in the sample was £1,360 against £1,161 for all WT payers. It is clearly established that, on average, the smaller wealth holders have, proportionally, the heavier compliance costs. The higher average wealth holding in the sample implies an underestimation of aggregate compliance costs.

Overall, the compliance cost/tax liability ratio from the sample is more likely to under-state than over-state the ratio of aggregate compliance cost/total revenue of the WT.

Whilst much remains uncertain a number of conclusions can be set down with fair confidence.

The total compliance costs in respect of individual WT payers and individuals incurring compliance costs to establish nil liability consisted of the following:

1. Professional fees incurred by WT payers (sample cost/liability ratio = 18.5).

2 Professional fees to establish nil liability (likely to be "once-off" costs).
3 Other financial compliance costs (postage, travel, etc.).
4 Non financial costs (perhaps adding one-third to compliance costs).

The distribution of the costs was regressive. Many citizens incurred substantial costs to establish nil liability. For many others (17 per cent of sample) professional fees alone exceeded tax liability. For over half the sample professional fees were at least one quarter of liability.

With other taxable persons, Discretionary Trusts and PNTs, compliance costs were almost certainly lower (per £1 revenue raised) than for individuals. Where the Discretionary Trust or PNT was being managed by professionals, there would be few if any other compliance costs besides professional fees and these probably averaged less than for individuals (sample cost/liability ratio of 14.8). The lower costs are to be expected from the lack of a threshold, the fewer reliefs, the more restricted range of assets and the likelihood of an existing inventory of property. Even so, the sample data suggest that compliance costs were high for Discretionary Trusts and PNTs.

### *Total Operating Costs*

If compliance costs were high, it is clear also, from our earlier analysis, that the administrative costs were well above the average for the tax system as a whole.

Whilst it would be too hazardous to attempt any precise estimates, the overall operating costs of WT in relation to individuals cannot have been less than 25 per cent of revenue and could easily have been as much as 50 per cent — with a regressive distribution. With Discretionary Trusts and PNTs a minimum would be 15 per cent. These figures represent the real resources taken up in running the tax. It means in aggregate terms, that it must have cost, in real resources, at least £1m per annum to bring in the £5m that WT averaged during the three years of its existence.

All taxes generate operating costs. How does the WT compare with other taxes? Few large-scale studies have been undertaken on compliance costs[52] but from such studies as exist, it is clear that the compliance costs of WT were exceptionally high. To quote some of the more recent and most nearly comparable studies: a study of direct personal taxes in the UK in 1969-70 put total operating costs at between four and six per cent of tax revenue plus up to four per cent more for tax work for private firms not billed as

52. For a summary of the findings of compliance costs studies to 1980, see Appendix C, Sandford *et al.* (1981).

such. Of this figure, administrative costs were 1.4 percentage points (Sandford, 1973). An estimate of the operating costs of VAT in the UK in 1977-78 was around nine per cent with administrative costs of two per cent making operating costs of 11 per cent (Sandford *et al.*, 1981). Subsequent simplifications to VAT together with a substantial increase in standard rate had almost halved these ratios by 1980/81 (Sandford and Godwin, 1983). VAT is rightly regarded as a tax with high compliance costs. Yet the compliance costs of the Irish WT were of a far higher order of magnitude.

There remains one further vital question on operating costs. How far were the high costs a product of the newness of the tax? How much would they have fallen had the tax remained in force?

That there would have been a reduction in both administrative and compliance costs is undoubted. Unfortunately, as we have explained (p. 111) it has not been possible to monitor changes over the three-year period of the tax "though the sample data do make it clear that valuers'" fees were significantly heavier in the first year than in later years. This is certainly to be expected given the WT provision that valuations of real property were allowed to remain unchanged for a three-year period. None the less they could have been expected to rise again had there been a year "four". But it is less costly to update and revalue an inventory of property than to compile it and value it for the first time. The "learning effect" would certainly have eased the work of both WT payers and their professional advisers. As the Revenue became more used to the tax and the tax payers, it would doubtless have been able to concentrate on the most sensitive areas and been less generally demanding. All these factors would have reduced compliance and administrative costs. However, whilst the extent of this reduction cannot be calculated, it is also clear that, given the low yield, the complicating reliefs and the method of administration with insistence on open market valuation, the WT would have remained a tax with exceptionally high operating costs.

Chapter 9

# *ECONOMIC EFFECTS II – THE ALLOCATION OF RESOURCES*

The previous chapter analysed, and provided some minimum quantification of, perhaps, the most important economic effect of the WT – the resources absorbed in operating it. This chapter examines the broader economic effects which are less susceptible to measurement. It looks, in particular, at how the WT may have required or induced taxpayers or potential taxpayers to change their behaviour in the way they allocated their resources. It outlines changes in the form of ownership of assets. It examines possible changes in the place where taxpayers or potential taxpayers chose to hold their assets – in the Republic of Ireland or elsewhere. It analyses whether WT may have led taxpayers to consume rather than to save. It examines the possible effects on the level, direction and productiveness of investment and considers in particular possible effects on investment in private businesses and in agriculture. The chapter ends with comments on the psychological climate the WT generated and how this may have influenced taxpayer behaviour. As stressed at the beginning of the previous chapter, the evidence on these issues is flimsy and some of the conclusions must necessarily be tentative.

## *Tax Planning*

It is possible to begin with certain economic effects which were clearcut although their extent is difficult to determine, namely, switching of assets between classes of assessable persons for purposes of tax planning. Essentially such transfers were between individuals and PNTs, and individuals and Discretionary Trusts.

### *Private Non-trading Companies*

As PNTs were charged separately to WT without benefit of thresholds it was to be expected that where shareholders had unused personal allowances for WT they would seek to have PNTs re-classified so as to take full advantage of personal thresholds. A change in the nature of its asset-holding and income would achieve this end. That such action was taken has been verified by accountants. As an extreme form of this process, a few PNTs may have been dissolved during the period of operation of the WT (thus facilitating changes in legal ownership).

There were also indications of a less predictable effect, that assets some-

times moved the other way, from individuals to PNTs. The object behind such a move was to take the individual out of WT so that he did not have to make a return disclosing the nature and extent of his personal assets. Where a taxpayer feared that an exchange of information between the WT branch and other branches of the Revenue Commissioners might be to his detriment, he would be prepared to pay extra tax to avoid such an occurrence. If a taxpayer could so contrive that his taxable assets as an individual were only just below the threshold, the cost in extra taxation of transferring assets into a PNT would be small.

*Discretionary Trusts*

Discretionary Trusts remained a tax planning device for purposes of CAT as they had been for ED. As, like PNTs, they did not benefit from any threshold provisions, home-based Discretionary Trusts were unattractive once WT was brought in. The WT was unlikely to have led to the dissolution of many Discretionary Trusts because, unlike PNTs, legal conditions made such a dissolution a slow process. However, it seems clear that fewer home-based Discretionary Trusts were set up during the period of the WT.

The position of offshore Discretionary Trusts was somewhat different. The Wealth Tax Act charged the taxable assets, wherever situated, of persons domiciled or ordinarily resident in Ireland, and also charged the taxable assets, situated in Ireland, of non-residents. Consequently, an offshore Discretionary Trust which did not contain property situated in Ireland amongst its assets, (e.g., one consisting of UK or US stocks and shares) might escape tax altogether. However, the WT Act provided that where the settlor was living and domiciled and ordinarily resident in Ireland, or was so when the trust was established, or (with a will trust) at death, the property situated outside the State was taxable. It appears that some Discretionary Trusts changed their residence, but the scope for tax avoidance by this method was clearly limited and it does not appear to have been resorted to on a significant scale.

Where the same assets were simply transferred between one kind of ownership and another, the economic consequence would be slight apart from the loss of tax revenue. This would certainly be so for transfers of assets between PNTs and individuals. There would, presumably, be some loss of welfare, as individuals were adjusting the form of ownership of their assets in a way they would not have done but for the tax; and, in the use of the assets, corporate ownership as in a PNT might be less flexible than individual ownership. But it is unlikely that these effects were economically significant. Where assets were transferred into Discretionary Trusts, the loss of flexibility would be more pronounced. More significantly, in order to avoid WT altogether the

assets held by the Discretionary Trusts had to be situated outside the State. Therefore, the establishment of offshore Discretionary Trusts may well have led to some switches out of "Irish" assets, but because of the provisions regarding the residence and domicile of the settlor, the scope was very limited.

### *Capital Flows*

The establishment of offshore Discretionary Trusts with a portfolio of foreign assets gives some credence to the claims that the WT led to a movement of funds out of the country. This was the view presented by Mr George Colley, the FF Minister for Finance, in proposing the abolition of the WT in 1978. He also held that it curtailed the inflow of investment funds:

> There were indications of an outflow of badly needed private funds in 1975 and 1976 and, while one cannot be definite about the reasons . . . it seems to be more than coincidence that it occurred at the same time as wealth tax was introduced . . . [furthermore, one must consider] . . . the amount of capital which would have flowed into the country were it not inhibited from doing so by the very aura of a wealth tax. The amount involved can only be conjectural but . . . one certain result emerged. Existing jobs were lost and jobs in prospect never came to fruition. (Budget 1978, p. 29).

In spite of the strength of Colley's statement, a search revealed only sparse and inconclusive evidence. In forming his initial attitudes to the WT when in opposition, Colley and members of FF would have listened to various professional men who acted as advisers to the party and who could point to individual instances of capital outflows. Certainly, as confirmed by our own enquiries, there were cases of individuals emigrating and, where it was situated in Ireland, taking their wealth with them to avoid WT. However, it is arguable that such instances were less a product of WT as such than of the growing overall weight of Irish taxes (see Table 3.4, p. 41). The WT may have been the last straw in the process. Furthermore, there are reasons for believing that any exodus of the wealthy was unlikely to be accompanied by a major capital outflow.

Under the terms of the Wealth Tax Act, an individual domiciled and ordinarily resident in Ireland on a valuation date was liable for WT on his world assets and, furthermore, was deemed to remain domiciled and ordinarily resident for "the three valuation dates next following that valuation date" (Section 3(5)(a)(ii)). Accordingly, the scope for avoiding WT through emigration was limited and, in theory, given that the WT only lasted for three

years, capital outflow associated with emigration should not have affected WT liability. An incentive to emigrate remained, however, because taxpayers did not know that WT would only remain on the statute book for three years; moreover, emigration doubtless facilitated evasion of WT. Given the modest effective rate of WT it seems highly unlikely, however, that a significant number of residents emigrated to avoid WT, especially when it is remembered that the abolition of ED had much reduced taxation at death (often given as a reason for older people seeking foreign domicile). One suspects that for those contemplating emigration for other reasons, WT provided a popular excuse.

The situation for the non-resident was different since he was only liable on Irish assets and would find it easier to transfer his Irish holdings out of the State. But even the non-resident would be constrained by the illiquid nature of many assets and the time and expense of effecting the transfer. The benefit of avoiding a modest WT had to be compared to the cost of moving capital.

As to restricting capital inflows, it has to be remembered that most foreign investment in Ireland took the form of investment by multi-nationals who would not have been liable to WT and hence not discouraged by it. In so far as foreign investment in Ireland was by individuals, they would only have been liable on their taxable wealth in Ireland, which would have allowed a reasonable investment before any WT liability would have been incurred. Although the WT threshold may have acted as an arbitrary limit to the amount non-residents were prepared to invest in Ireland, there is no evidence that this was the case.[53]

Whilst contending that WT discouraged capital inflows George Colley also presented the apparently contradictory argument that "the WT was operating against Irish people in favour of foreigners" (Dáil Debates, 24 May 1978, Col. 1767). The basis of this argument appeared to be that Irish people paid WT on their world assets whereas foreign companies paid no WT. However, the argument is misplaced. Irish companies paid no WT, whilst foreign individuals paid on their Irish assets. The only difference, once like is compared with like, is that foreign individuals did not pay WT on assets outside Ireland. However, they could expect to pay the taxes of their own country on such assets. The argument cannot be regarded as valid.

The foregoing analysis lends little support to the view that WT caused a significant outflow of capital or limited capital inflows. What empirical data on the flow of funds can be brought to bear on the issue to substantiate, or otherwise, George Colley's contentions?

53. In so far as a substantial investment by foreigners is to start businesses on which profits might be nil or small for some years, the WT may have been a deterrent.

*Empirical Evidence*

As the Minister responsible for introducing WT, Richard Ryan was aware of the possibility of a capital outflow and, even before the White Paper was published, had requested the Department of Finance and the Central Bank to monitor carefully the situation and to inform him if a capital flow could be identified. This monitoring was maintained throughout the Coalition's period of office and, in Richard Ryan's view, no evidence was found to indicate a significant outflow of funds. His colleague, Peter Barry (FG) reiterated this view:

> I enquired and was assured that there was no evidence and it was carefully watched for three years (Dáil Debates, 24 May 1978, Col. 1769).

George Colley took a different view of the matter pointing out that while initially (April 1974) it was not possible to identify particular capital outflows so that there was no evidence of such flows being a response to capital taxes . . .

> Subsequently, officers of the Central Bank intimated that they had heard reports in banking circles of funds being transferred abroad . . . [and] by the latter half of 1974 there were indications that resident balances with the associated banks outside the State were increasing . . . while it was impossible to isolate the magnitude involved, it seemed a fair inference that financial flows had been influenced both inward and outward by taxation proposals here and in the UK.[54] (Dáil Debates, 14 June 1978, Cols. 1191-2).

The official statistics adduced to support the contention that a capital outflow occurred during the period the WT were debated in the Dáil when the Finance Bill, 1978, was at the committee stage (especially on 14 and 15 June, 1978). The principal statistics are presented in Table 9.1. When the Dáil Debates took place in mid-1978, the published data on capital flows only covered the period up to and including 1976. The table is drawn from the same source as referred to in the debates (*Irish Statistical Bulletin*) but takes the figures further so as to cover the period 1972 to 1980. It thus identifies the movement of funds before, during and immediately after the WT. The figure most relevant to possible outflows in response to WT are for "other private flows" (Column 3).

54. The Labour government, in Denis Healey's Budget of March 1974, proposed both a Capital Transfer Tax (CTT) and a WT for the UK. The CTT was enacted, but the WT, after prolonged debate, was shelved at the end of 1976.

It would appear from the figures that negative "other private flows" coincided with the introduction of the WT. But, if WT had been the cause, a pronounced outflow might have been expected in 1974, the year of the White Paper (February 1974) and the national debate preparatory to legislation in early 1975. In fact 1974 showed the largest capital inflow. Perhaps more telling, the figures since the Dáil Debate show that private outflows only became large in the late 1970s and continued to rise after the abolition of the WT.

It must be stressed that the ability of the Central Bank to monitor capital flows was limited, especially in the absence of exchange control between Ireland and the UK. For these and other reasons the accuracy of the figures in Table 9.1 is suspect. Nevertheless, the movements identified in the table, for what they are worth, do nothing to support the contention that WT restricted foreign investment in Ireland. Whilst it is true that they show a leap in direct foreign investment (Column 1) in the years following the end of WT, foreign investment appears at substantially higher levels in the three years of the WT than in the three previous years.

Table 9.1: *Private capital flows 1972-80*

| *Year* | *(1) Direct investment* | *(2) Flows to companies* | *(3) Other private flows* | *(1)+(2)+(3) Private capital; net flows* |
|---|---|---|---|---|
| | *£m* | *£m* | *£m* | *£m* |
| 1972 | +12.7 | +2.4 | -27.4 | -12.3 |
| 1973 | +21.6 | +21.2 | +39.8 | +82.6 |
| 1974 | +21.9 | +83.8 | +56.9 | +162.6 |
| 1975 | +71.5 | +9.9 | -88.7 | -7.3 |
| 1976 | +96.1 | +15.5 | -76.7 | +34.9 |
| 1977 | +78.1 | +103.8 | -273.8 | -91.9 |
| 1978 | +195.7 | -31.5 | -278.9 | -114.7 |
| 1979 | +164.5 | +111.7 | -266.1 | +10.1 |
| 1980 | +139.4 | -32.6 | -374.5 | -267.7 |

*Sources:* 1972-74: *ISB*, Vol. 52 (1977). 1975-79: *ISB*, Vol. 56 (1981). 1980: *ISB*, Vol. 57 (1982).

*Notes:* + = net inflow; - = net outflow.

(1) Direct investment by non-residents in Ireland and by residents in other countries.

(2) Private capital flows to/from Assurance Companies, semi-State Companies and share issues by public companies.

(3) Private capital flows not covered under (1) or (2), e.g., foreign securities, transactions with financial institutions.

To sum up: while there is some evidence of an outflow of private capital during the period of the WT, there is no evidence to support the claim that this outflow was a response to the WT. It seems far more likely, particularly given the growth of the outflow in the late 1970s, that the observed trend was a response to a variety of factors, not least of which was the growing burden of overall taxation. Similarly, the trend of direct foreign investment does not correspond to the pattern one would expect if the WT were a significant influence on it. George Colley himself admitted that the evidence was "not conclusive" (Dáil Debates, 24 May 1978, Col. 1768). The case that the WT led to international capital movements detrimental to the Irish economy must be regarded as non-proven.

### *Domestic Investment*

Whatever the effect of the WT on capital outflows and inflows, it was also argued that the WT would affect domestic investment. It might do so in a variety of possible ways. On the one hand, some maintained that a WT would discourage saving or even encourage dissaving and hence restrict the flow of investment funds. It was further contended that a WT would be particularly damaging to investment by the closely-owned businesses and in agriculture. On the other hand, proponents held that a WT would lead to a transfer of capital into more productive uses. In this section these arguments are examined in turn.

#### *Saving*

To start with some theoretical analysis: as a WT is an annual tax on accumulated saving, some discouragement to saving would seem to be implied. But we must refrain from jumping automatically to that conclusion. Even if a WT were imposed with no compensating changes, it is not certain that saving would be discouraged. A WT reduces the net yield from saving. *Assuming the asset holding remains unchanged*, the effect is comparable to an increase in income tax, giving rise to two opposing effects. On the one hand, the net yield from saving having been reduced, saving is less attractive. On the other hand, anyone saving for a particular net of tax income needs to save more in order to obtain it.

However, an imposition of a WT may be accompanied by compensating tax reductions elsewhere in the system, or will be an alternative to an increase in tax elsewhere. If WT is accompanied by a reduction in income tax (or is an alternative to an increase in income tax) it may prove an *incentive* to saving (or less of a disincentive than an income tax increase) rather than the

reverse. For, whilst additional saving attracts WT, the fruit of that saving – the income from it – now bears less tax than before (or than it would have done in the absence of a WT).

In the case of the Irish WT a reduction in the top rates of income tax was promised on the introduction of WT and a new scale was proposed as from April 1975 which, amongst other reductions, lowered the top rate from 80 to 70 per cent. However, in practice this was largely, if not wholly, vitiated by a temporary 10 per cent surcharge. As a result the top rate of income tax only fell from 80 per cent to 77 per cent, although there were bigger reductions in the two rates immediately below the top rate (see Table 3.3).

In assessing whether a WT will have a detrimental effect on saving, one vital question is whether the tax can or cannot be met (along with income tax) out of income. For convenience we use the terms "substitutive" for one which can be so met and "additive" for one which cannot (see pp. 14-15). These terms lack precision because, of course, a WT may be substitutive for some and additive for others.

Our theoretical analysis (above) of the effect of a WT on saving implied a substitutive tax. If a WT is additive it is much more likely to reduce saving and,indeed, may lead to dissaving, i.e., to consumption spending from capital. If the combined average rate of income tax (IT) and WT exceeds 100 per cent, saving is impossible. If the combined marginal rate (MR) of IT + WT exceeds 100 per cent, saving is largely futile. It is marginal rates of tax (i.e., the tax on the additional earned income or investment income) which are particularly relevant to the incentive to earn more or save more.

Consider a hypothetical example in which an individual "A" is paying income tax at a (maximum) marginal rate of 80 per cent. Then let us assume that WT is imposed at a two and a half per cent rate on the whole of his wealth. Then the combined weight of IT and WT depends on the rate of return on wealth. A WT of two and a half per cent is equivalent to IT of 50 per cent on an investment yielding five per cent and to IT of 25 per cent on an investment yielding 10 per cent.

If "A" earns additional income the MR of IT = 80%
If "A" adds to his saving out of income and invests it then on the investment income:
At 5% yield, MR of IT + WT = 130%
At 10% yield, MR of IT + WT = 105%

In both cases "A's" income has actually fallen because he has saved more. Or, in other words, the combined effect of IT and WT has been to reduce his wealth. The only effect of his saving has been to slow down the rate at which his wealth declines. The temptation must be strong to spend out of capital.

The effect can be seen more realistically if we postulate that individual "A", instead of trying to save out of his marginal addition to income, (a most unlikely event in the circumstances) receives a legacy of (say) £1,000 from Aunt Bridget. He is faced with the choice of consuming it or investing it. If he invests it at 10 per cent then he would get an income of £100. He would pay £80 in income tax and would be liable to £25 in WT. His tax would exceed the income from the investment. At a rate of return of less than 10 per cent the excess would be all the more. Only if the rate of return was more than 12½ per cent would "A" derive any net income from the saving. Even if it were possible to sustain a rate of return above 12½ per cent, the benefit would be minimal. At anything less than this, tax would gobble up each year all the income and part of the capital. In these circumstances the incentive to have a spending spree must be well nigh overwhelming.

Clearly, a heavy WT on top of a heavy IT can be a disincentive to save and invest and may, indeed, lead to dissaving.

What of the Irish tax? Whilst the maximum marginal rate of IT, at 77 per cent, which ruled in Ireland for the two years after WT was introduced, was not much less than our hypothetical example, WT was far less burdensome than in the example. At one per cent, with high thresholds and widespread exemptions and reliefs, the effective (average) rate of WT on individuals was 0.4 per cent (pp. 26-27). The effective marginal rate depended on how the assets invested in were treated for WT.

Assuming an investment in taxable assets not eligible for relief with a rate of return of five per cent, the marginal rate of IT and WT combined would be 97 per cent. With higher rates of return, the combined marginal rate would be lower. (At the time the nominal rate of interest on government long-term securities was around 13 per cent.) Moreover, it would always be open to the wealthy to reduce the rate of WT by investing in assets which were exempt or partially relieved of tax.

It should further be recalled that the ceiling provision in the Irish WT restricted the "take" in IT and WT to 80 per cent of income, subject to the "floor" requirement that at least 50 per cent of WT liability must be paid. The ceiling provision was called into operation in a few (but only a few) instances. Such cases would be where the return on wealth was very low indeed.

Whilst it was clearly possible under the Irish WT for the combined *marginal rate* of WT and IT to approach or even exceed 100 per cent of additional income, this situation owed more to a high income tax than a high WT. It would only have occurred where the rate of return on wealth was very low or/and no advantage was taken of investment in exempt or relieved assets. Given the low effective rate of WT, only if wealth was enormous and rate

of return very low could combined *average* IT and WT exceed 100 per cent of income; and the existence of the ceiling provision virtually ensured that this did not happen. Some perspective on the tax is provided by the reflection that in 1976, the year when the net receipt from WT was at its highest level (£6.5m), it accounted for only 0.5 per cent of the total net receipts of the Revenue Commissioners and its yield was less than half that of the annual yield of the ED it replaced. (Even the addition of the revenue from CAT would barely have raised this figure above one half of the ED yield.)

Whilst the WT, as such, may have had little effect on aggregate saving and hence, given investment opportunities, on aggregate investment, it may still have exercised a detrimental effect on investment and economic growth in respect of certain key areas, in particular in private businesses and in agriculture.

*Business Assets*

The view that the WT would be deterimental to companies was forcefully expressed by the Confederation of Irish Industry:

> The proposed new wealth tax would be an additional form of company taxation which would either reduce reinvestment or require dissipation of assets and thus cause unemployment (*CII Newsletter*, 19 March 1974).

The basis of this argument was that the WT, levied on shareholdings, would require companies to pay out increased dividends to cover the WT liability of the shareholders. Moreover, to provide the funds for shareholders to pay WT, corporation tax and income tax had to be paid on the dividends and this meant more taxation than if the profits had remained undistributed and been reinvested. However, the WT did not apply to companies (except PNTs) nor was there any onus on a company to compensate shareholders whose wealth was large enough to attract WT liability. Certainly the argument had no validity in respect of publicly owned companies with readily marketable shares. Any shareholder in difficulties over paying WT could simply sell some shares. The majority of shareholders would not be liable. The company, as such, would be entirely unaffected.

Where the argument may have had some credibility was in the case of closely-owned companies (the most prevalent form of corporate business in Ireland) where the wealth of the company was owned by very few persons, probably all in the same family, some or all of whom were liable for WT. Even in such cases, the low effective rate of WT should have meant that shareholders could normally pay WT with little real hardship and without the need to impinge on business assets.

A WT could have a more detrimental effect on a closely-owned company which was just starting up or one going through a bad patch. It is to be expected that a new company, however good its prospects, may have a period of several years before it becomes profitable. Such a company pays no income tax or profits tax during this period; but the shareholders would have to pay WT on their shares. Similarly, with a closely-owned company going through an unprofitable period for reasons which were no fault of its own, e.g., a general depression or the loss of a major export market for political reasons. Wealth tax would have to be paid on the share values. Thus, a WT could hamper the establishment or rehabilitation of a business. But such an effect would be restricted to companies which were closely owned and where the shareholders' wealth consisted almost entirely of business assets so that the tax liability on them significantly limited what they could put into the business. With the high threshold, low rates and various reliefs of the Irish WT, some of the reliefs specifically for productive industry, few, if any, such situations were likely to occur. Whilst the literature of the Confederation of Irish Industry often failed to make clear that WT was on the individual, not on companies, in fairness it should be pointed out that the quotation (above) was from a document issued in 1974 and hence related to the proposals in the White Paper, which were much more severe than those of the Wealth Tax Act.

The position of an unincorporated business was similar to that of a closely-owned business. The business assets were assets taxable to WT. It was possible for WT to affect the business adversely, but unlikely under the terms of the Irish WT.

*Agriculture*

The effect of a WT on agriculture is a special case of the effect of this tax on an unincoporated or closely-owned business, but is worth separate consideration not only because agriculture is such a significant part of the Irish economy, but because of four interconnected special features of agriculture: the ownership structure, the high capitalisation, the rate of return and the fixed stock of land. Agricultural land is predominantly in individual ownership; very little agricultural land is owned by public companies and the majority of farmers are owner-occupiers. On this score, a WT may be expected to impinge more directly on agriculture than on most other industries. Reinforcing this consideration is the fact that agriculture, because of its dependence on a high value asset in land, is a very heavily capitalised industry. The heavy capitalisation, reflecting rapidly rising land prices, also means that the *income* yield of agriculture has tended to be low. Finally, because land is more or less fixed stock and because only a relatively small proportion of land comes

onto the market each year, its price tends to be particularly volatile.

Against this background, what was the impact of the Irish WT on agriculture? Is there reason to believe (as claimed by the agricultural interest) that the tax inhibited investment in agriculture or led to a break-up of agricultural holdings in a way detrimental to efficiency?

If agriculture was the industry most potentially vulnerable to WT, it was also that which, from the beginning, was to be the subject of most reliefs. The White Paper provided for a 50 per cent valuation of agricultural land up to a maximum relief of £100,000 and a series of later changes extended the reliefs (see Chapter 2 and Appendix B). As a result a full-time farmer would not become liable to WT unless his net wealth was of the order of £250,000 and, if he had a substantial residence with valuable contents or if he was engaged predominantly in livestock farming (and livestock was completely exempt from WT) the figure would be higher.

In 1975 the average price of an acre of agricultural land was £543 (Kelly, 1983). The best quality land might have fetched £750 an acre. Allowing for other assets, this implies a farm of a minimum size of 250 acres (and no mortgage) for its owner to be liable to WT. Slightly over four per cent of full-time farms were of 200 acres or more and, of these, two-thirds were of high quality soil. Clearly, the majority of these would not have been paying WT, either because they were not large enough to be liable, or because they had debts which brought them below the WT threshold.

Approaching the issue from another angle, the number of individual WT payers was under 2,500. Taking an absurd extreme, if *all* WT payers were farmers this would have been well under two per cent of the total number of full-time farmers.[55] The Revenue Commissioners' statistics show agricultural property as approximately 25 per cent of the gross wealth of WT payers; on a pro rata basis, perhaps 600 farmers paid WT or about 0.4 per cent of the total. It is clear that the WT could hardly have had a major impact on the industry.

However, those who did pay would be the wealthiest and possibly the most productive farmers. How far would they have been affected? Would their incentive to invest have been undermined?

The average income return to capital invested in agriculture in 1975 was around three per cent.[56] Let us take the extreme case of a very wealthy farmer who was paying income tax at the maximum marginal rates and contemplating a £10,000 investment in agriculture. Let us suppose he also owns

55. The estimated number of full-time agricultural holdings was almost 140,000 in 1975 (Farm Management Survey, 1977).

56. For example, according to the ICMSA (Press release 25/3/74) – "money invested in agriculture normally gives a return of between two and three per cent".

some government long-term securities. Will it pay him to sell his securities to invest in agriculture?

With a three per cent yield, a WT of one per cent is equivalent to a 33⅓ per cent income tax. However, the WT valuation of agricultural assets is lower than the open market valuation because of tax reliefs — 20 per cent on land or buildings, 100 per cent on livestock. Let us take the least favourable case — i.e., 20 per cent relief. The position is as follows:

| | |
|---|---|
| investment £10,000 at three per cent | = £300 p.a. income |
| income tax on £300 at 77 per cent | = £231 |
| WT on £8,000 at one per cent (equivalent to IT at 33⅓ per cent on ⅘ of £300) | = £80 |
| Total tax | = £311 |
| Net gain | = - £11 |

On the face of things it would appear that the combined WT and income tax would wipe out the income from an investment in agriculture by such a wealthy farmer and hence would generate a negative net return. However, this ignores the fact that the yield from an investment is a combination of income and capital appreciation (which may be negative). Between 1975 and 1976 the price of agricultural land rose by 35 per cent as part of an unbroken increase from 1972 to 1979 (Table 3.1, p. 32). Thus, in fact, there would be a nominal return of approximately 35 per cent, or a 14 per cent real rate of return (after allowing for the 21 per cent increase in the consumer price index). Even if the gain were realised and subject to the new CGT (at 26 per cent on the nominal gain) there remained a five per cent real rate of return (even without the benefit of the CGT exemption of the first £500 of taxable gains per annum). This compares with a negative real rate of return on the government securities.

It might be thought that the rise in land prices would increase WT liability in the following year. But this was not so because the WT valuation of real property was allowed to remain unchanged for three years. Thereafter it might have affected WT liabilities had WT continued — but, if the promise of the May statement had been kept, the effect would have been mitigated by indexation.

To sum up on the situation in agriculture. The first and fundamental point is how very few farmers were liable to WT: only a very tiny minority of all farmers. For the richest of farmers, it was possible that WT taken in conjunction with IT might exceed income from an agricultural investment at the margin. But the investment remained a most profitable use of funds

compared with the alternatives because of the appreciation of land values. A farmer so affected might have experienced cash flow difficulties but it would have been surprising if his total income (as distinct from the income from the marginal investment) was insufficient to meet his total income tax and WT liabilities.

Given the volatility of agricultural land prices, which actually fell in 1972 and in 1980, perhaps the most significant piece of evidence that the WT had a negligible effect on agriculture is that the price of agricultural land rose steadily, and by more than the consumer price index, throughout the period of the existence of the WT. On the other hand, despite the relief for agriculture in the White Paper, had the White Paper proposals been enacted as they stood, agriculture, with its very special characteristics, must have been significantly affected. The cry that went up against the WT from the agricultural interests is understandable. It is widely held (see, for example, Commission on Taxation, 1984, Chapter 10) that the productivity of many farms is very low; it is at least possible that a WT would have brought about an improvement in productivity either by its effect on existing owners or by enforcing a change in ownership. (However, any such effect would have been limited because much of the badly used land is in small holdings which would not be liable to WT.) The next section considers the more general argument that a WT may lead to a more efficient allocation of resources.

### *The Productivity of Investment*

So far this chapter has been primarily concerned with allegations against the WT – that it caused an outflow of funds and that it was detrimental to saving and to investment especially in private businesses and in agriculture. But a WT is also held to have beneficial effects on the productivity of investment. Because it taxes wealth irrespective of the yield from it, whether indeed it has any yield or none, it has been held to promote investment in productive assets – to promote the transfer of investment funds from nil yielding to income yielding and from low to higher yielding assets (pp. 15-16).

An earlier example in this chapter gave some indications of the possibilities along these lines. "A" in our hypothetical example (p. 131) could have got some positive benefit from saving if the yield on his investment had exceeded 12½ per cent, but not otherwise. The argument that a WT promotes efficiency in resource use is strengthened if the introduction of WT is accompanied by a reduction in IT. Because wealth of equal amount pays the same WT regardless of income, if IT is reduced to offset the imposition of a WT, on a revenue neutral basis, most of the benefit of the change goes to investments yielding high income. Such investments yield more, net of combined tax,

than before the change, whilst investments with nil or low income yield pay more tax.

Before we assess the Irish WT for its effect on resource use, whilst acknowledging some validity in the theoretical argument, we need to introduce several caveats.

One arises from the interpretation of the term "yield" (a problem we met in connection with agriculture). The argument relates to income yield. However, reward for productive investment may take the form not so much of income yield as of capital gain. Many economists would, in fact, wish to see real capital gains treated as a form of income and taxed accordingly. However, this rarely happens in practice, and it must therefore be recognised that yield may include elements not regarded as income for purposes of the income tax code.

Secondly, it must also be recognised that even if all yield took the form of income as defined in the tax code, income would not be precisely equatable with efficiency. Yields may vary for reasons which have nothing to do with the efficiency with which resources are used, at any rate in the short run, which may mean a considerable length of time. Thus, as we have already mentioned, a new business may have excellent prospects but need several years of net or low profits to establish itself. And an existing business may suffer a loss of markets for fortuitous reasons and need time to seek out new markets. In such situations it would be quite wrong to encourage a transfer of resources out of these low yielding activities; and in such circumstances a WT has a more detrimental effect that an income or profits tax, the burden of which is reduced (or eliminated) if income or profits are low (or zero). Low profits may have some effect in reducing the value of capital in the business and hence the WT base, but such an effect will be muted and will remain small if the long-term business prospects are good.

Recognising these important limitations to the general argument, what of the Irish WT? How far, if at all, did the Irish WT promote a more efficient use of resources? If there were any beneficial effects on efficiency they were too insignificant to be noticeable. Whilst no empirical evidence can be adduced in support of the observation, the likelihood must be that the net effect of the tax was to move resources to less rather than to more productive outlets because of the structure of the tax.

Because the thresholds were so high and because of the exemptions, most notably a house and contents, the number of investors affected by the tax was necessarily small – much smaller than would have been the case with a much lower threshold and no exemptions. For those who were affected, the nature of the exemptions and reliefs would work heavily against any tendency of the tax to promote efficiency in resource use.

A main plank in the argument in favour of a WT on efficiency grounds relates to nil yielding assets. A WT should discourage investment in owner-occupied housing (where there is no tax on an imputed rental income), antique furniture, stamp collections, jewellery and the like, relatively to income-earning investment. The Irish WT did precisely the reverse by exempting owner-occupied housing with a surrounding acre of land and exempting all the contents of the house. These now become more attractive as objects of investment. Similarly with the exemption of pension rights. Although any individual investment in pension funds (which might be encouraged by the WT) finds its way into the capital market, the tendency is for pension managers to go for safe investment rather than the more risky and potentially productive.

It is true that other exemptions — like farmer's livestock, bloodstock and growing timber have more of a productive flavour, but, none the less, here were whole classes of assets exempted regardless of the efficiency of their use.

Similarly, whilst most of the reliefs — the reduction in valuation of agricultural land, commercial fishing boats and hotels and the 20 per cent reduction in the value of shares in Irish trading companies providing employment in Ireland — had a productive flavour about them, they represented tax exemptions of broad classes of assets irrespective of the rate of return.

In Ireland, as Table 2.4 (p. 28) shows, 14 per cent of the assets (by value) of wealth tax payers was exempted (which was almost certainly an underestimation because of under-valuation) whilst almost 50 per cent benefited from some relief. Conversely, foreign holdings, however productive, were taxable without benefit of relief. With this structure it is difficult to see the WT as an effective instrument to promote the efficient use of resources, although scope for such improvement is widely recognised, especially in agriculture.

### *The Psychological Effects of the Wealth Tax*

The incentive or disincentive effects of a tax are a product of how it is perceived as well as what it actually is. There are reasons for thinking that, more than most taxes, the WT generated an attitude of mind which coloured people's approach to its effects and may have led to an irrational element both in the opposition to it and in people's behaviour in relation to it. The very term "wealth tax", conjured up visions of expropriation and may have led to the feeling that here was a tax "paid out of wealth".

The way the tax was presented almost certainly accentuated opposition to it. The tax of the White Paper was very different from the tax actually

passed into law. The White Paper proposals, with their lower thresholds, fewer exemptions and progressive rates rising to two and a half per cent with no ceiling provision, would have understandably meant that many wealthy people would have faced marginal rates of IT and WT combined, which would have exceeded 100 per cent unless there had been a substantial cut in income tax. Moreover, the language of the White Paper, with what were regarded as socialist overtones, made it particularly obnoxious to some. The impression created by the White Paper must have lingered on after the substantial modifications of the May statement and beyond. Many people would not, indeed, have realised the extent of the changes made from the original proposals; whilst the opposing interests, having scented blood and attained considerable successes, were encouraged to press on with their opposition.

It is of interest that opposition to WT seemed to come from some who were not directly affected by it or affected very little. Partly this may have been rational. Some people, currently below the tax threshold, may have feared that they would be brought into the net before long, especially with the lack of indexation and the perception of rising land prices. Others, paying modest amounts of WT, may have felt that impecunious governments would soon push up the rates to nearer the White Paper proposals – such people could, after all, point to precedents of taxes where real thresholds had fallen and tax rates risen.

But some opposition appears to have less basis in rationality. We were told of opposition to WT from some not liable to it because it was the fashion, and in order to create the impression that they were wealthy enough to pay it! If so, it all added to the climate of opposition.

Very significant was the inopportune time at which the tax was being introduced – a period of slump, growing unemployment and falling investment. At the same time, rates of inflation were high and fluctuating so that to devise a logical rate structure for WT was difficult if not impossible.[57] Not least important, the overall burden of taxation had increased, was increasing and, in the opinion of most taxpayers, ought to be diminished.

It was not, therefore, all that surprising that an opposition, seeking to promote economic growth by a series of tax measures in 1977/78 should have seen WT as an obstacle to growth and that George Colley, in repealing the tax, should have maintained: "The WT has undoubtedly created a psychological climate in which investment and risk-taking have been at a decided discount" (Budget, 1978, p. 29).

57. To the extent that the trade unions perceived the wealthy to be bearing their share of the tax burdens, an effective WT might have had some beneficial effect on inflation by facilitating wage moderation.

## Chapter 10

## *ASSESSMENT OF THE IRISH WEALTH TAX*

This chapter attempts an overall assessment and verdict on the Irish WT. Was it a good tax or a bad one? Was it beneficial, injurious or simply innocuous in its effects? If it was a failure, or even a partial failure, why was that so? How rational was the opposition to it? Necessarily, to offer an overall judgement and to attempt to answer these various questions is, in large measure, a recapitulation bringing together the findings of earlier chapters.

### *Achievement of Objectives*

Any assessment of the WT must start by setting its performance against the stated objectives and the clearest statement of these objectives is to be found in the White Paper on Capital Taxation of February 28th 1974. In all, five goals are mentioned for a WT: improving equity by taking account of the taxable capacity conferred by wealth; reducing inequality in wealth distribution; promoting the efficient use of capital resources; aiding effective administration by helping to check evasion and avoidance of income tax; and replacing ED with a tax which avoided the liquidity problems generated by that tax. Whilst all these objectives are mentioned, however, they are not given equal weight.

#### *Equity*

Improving equity was seen as by far the most important contribution the annual WT could make to the tax system.

> Since possession of wealth confers a taxable capacity on its owner over and above the capacity derived from the income [if any] produced by that wealth, equity requires that this capacity be taxed. A wealth tax assessed *annually* has the merit of taxing this capacity on a regular basis and thus parallels the taxation of income (White Paper, 1974, pp. 26-27).

How far did the WT, as it emerged in legislative form, meet the equity (or, as we referred to it in Chapter 2, "horizontal equity") objective? The answer must be that the contribution was minimal.

The equity objective relates to the possession of wealth as such — all across the size spectrum. If there are two men in otherwise similar circum-

stances and with the same size of income, one of whom has £1,000 wealth and the other no wealth, then the one with the wealth enjoys advantages of security, opportunity and independence that the other does not; the one with wealth has a higher taxable capacity; a full application of the horizontal equity principle requires that the wealth be taxed.

Of course, it would be unrealistic to have a zero threshold; for practical reasons of administration there must be some *de minimis* level of wealth which is excluded from the tax net. But the logic of the horizontal equity argument is that the threshold should be set as low as practicable. The reason for having a wealth tax most frequently given by nine other European countries was the horizontal equity argument (OECD, 1979, p. 26). Of these countries, in 1976, the highest threshold (in Germany) was only half that of the Irish WT and in over half the countries the thresholds were only something like one tenth as high (Figure 2.1, p. 25). Nor is this all, in none of the other wealth taxes was the principal residence completely exempt (even though, as in Ireland at that time, residences were generally subject to local property tax). This exemption effectively raised the threshold by a further considerable amount for most taxpayers (for a married person, to perhaps £150,000 at 1975 prices). Nor was the Irish wealth tax less generous than the others in respect of other exemptions and reliefs.

To put the point in another way. The average number of individual WT payers in each year to which the tax related was under 2,500 out of a population, in 1975, of 740,000 paying income tax. All income tax payers must have possessed some wealth and many, though below the WT threshold, must have possessed considerable amounts of wealth. Why should the principle of horizontal equity be confined to such a minute proportion of taxpayers?

To take a different aspect, one of the particular reasons for advocating a wealth tax as a way of improving horizontal equity was to bring within the tax net items which avoided income tax because they yielded no money income. Such items, like houses, antique furniture, pictures and so on, yield an income of satisfaction and also often generate substantial capital gains which would have avoided the capital gains tax if held until death. These assets almost wholly escaped the Irish WT because it exempted not only the principal private residence but also all the contents.

So far our concentration has been on horizontal equity as between those with wealth and those without, or between those with different amounts of wealth. But there is also the question of horizontal equity as between taxpayers with the same value of wealth. The White Paper was very explicit on this issue.

> To ensure equity as between wealth holders themselves it is desirable that all forms of property be included in the tax base or that if exemptions are found necessary they are kept to a minimum (p. 27).

In the event exemptions and reliefs were widespread, creating inequities between taxpayers. Thus a married man renting his house and not benefiting from the various reliefs but only the exemption of house contents might start paying WT above an effective threshold of £110,000; for a man with his own house the effective threshold might be £150,000; for such a man with the majority of his property in relieved business assets it might be £170,000; for an arable farmer it might be £250,000. For a dairy farmer perhaps £280,000; for a stud farm perhaps £300,000. Such examples could readily be multiplied.

The verdict is clear. The WT applied to so few wealth holders and then in such an arbitrary way that it must be very doubtful if it added one jot to the horizontal equity of the tax system. Had the proposals of the White Paper been implemented, the verdict might well have been different, for the White Paper envisaged thresholds at roughly half of the level of those which actually came into force, no exemption of the owner-occupied house and a minimum of other exemptions and reliefs.

*Inequality*

The White Paper makes it clear that inheritance was seen as a major cause of inequality in wealth distribution and it was the CAT rather than the WT that was regarded as the main instrument for reducing inequalities in wealth holding. None the less, the proposals of the White Paper might well have been expected, allied with CAT, to make some significant contribution to the reduction of wealth inequalities. However, with its exemptions and reliefs, without a progressive rate structure, at a rate of only one per cent and with a ceiling provision, the WT as implemented can hardly have had any noticeable effect on wealth distribution. The new capital tax regime, in fact, must have had less than that which it superseded. Revenue yield must be the main indication of effect in reducing the concentration of wealth. Even in 1976, the year of its highest yield at £6.5m, the WT was raising less than half of the annual yield of the ED and adding in the revenue from CAT would barely have brought the figure to over one half (Table 3.2).

*Other Objectives*

The other three objectives referred to in the White Paper can be dealt with summarily for they were mentioned only as very subsidiary arguments

in favour of a WT. The contention that a WT would improve efficiency in resource use because it "would lean more heavily on assets which produce little or no income and would, therefore, encourage wealth owners to invest in more productive outlets" (White Paper, 1974, p. 29) was considered at some length when we examined economic effects in Chapter 9 (pp. 137-139). Quite apart from some reservations about the validity of the argument as a general proposition, the verdict on the Irish WT was that it affected only a small proportion of investment and probably the biggest incentive it offered to WT or potential WT payers was to move *into* rather than *out of* nil yielding assets because of the exemptions.

The WT did bring some advantage in terms of tax administration. It helped to reveal the existence of offshore Discretionary Trusts which could then be more easily taxed to income tax. But the scope for cross-checking with income tax returns was small when under 2,500 income tax payers were affected and cross-checking was not made easy by the separation of wealth tax from income tax administration.

Through the Valuation Office the WT also provided values which could be compared with those of CGT, and evasion by under-valuation reduced, but again the scope was limited by the small number of WT payers, the limited amount of property becoming liable for CGT during the life of the WT, differing valuation dates and the failure of the legislation to require that a valuation for one tax should also stand for the other (Chapter 7).

Finally, it must have been true that the WT raised less liquidity problems for businessmen or farmers caught by it than did ED because, in the event, it proved so much lighter a tax. But the opposition to WT from these same quarters does not emerge as any less vociferous than the opposition to ED.

### *Detrimental Effects*

It is clear that the WT fell a long way short of achieving the stated objectives; but did it have any injurious effects? Fianna Fáil certainly alleged so, as did many of the interest groups. How far were these allegations valid?

#### *Incentives, Investment and the Outflow of Capital*

The FF allegations were primarily about detrimental economic effects centred on investment. This question was considered at some depth in Chapter 9, together with the effects on the particularly vulnerable sectors of the closely-owned business and agriculture. The short answer is that there is no convincing evidence to support the view that the WT had any significant effect on investment or the flow of funds and that, given the small number of taxpayers, the low effective rate and modest revenue yield, the expectation

would be that any such effects were negligible. The main qualification to that view is the possible psychological effects (pp. 139-140). There is no doubt that the WT raised a big furore and this may have had some depressing effect on the economy.

This judgement may seem to imply a largely irrational and perhaps opportunist attitude by the opponents of the tax. There were certainly elements of irrationality and opportunism amongst the arguments of the opponents of the WT. But the opposition cannot be so lightly dismissed, for two reasons. First, because the opposition was initially directed against the tax as first proposed. The tax of the White Paper would have come much nearer than the tax of the statute to meeting the objectives of horizontal equity and reduction of inequality, but it would also have been much more likely to reduce saving, discourage investment, hamper the expansion of the private business and of agriculture and frighten the foreigner. That the opposition should have continued after the May statement was much less rational on economic grounds, but politically understandable. Second, against an economic background of depression, high inflation and a growing overall burden of taxation, opposition to a new tax, the economic effects of which were uncertain, was, to say the least, defensible.

*Costs of Operation*

The most telling argument against the WT as introduced was the cost of operating it – the administrative and compliance costs which we examined in detail in Chapter 8, and which we estimated to be at least 25 per cent of the yield of the tax and possibly much more. Whilst these costs would undoubtedly have fallen with time, because of the low rate of tax and the method of administration they would have remained quite abnormally high. Surprisingly, although references were made to the difficulties and costs of valuation, the argument of high operating costs did not figure prominently in the opposition to the tax. There are a number of possible reasons for this situation. No figures for administrative costs were published so such costs were hidden from the public. As for the major cost component, compliance costs, the very concept was unfamiliar. Moreover, taxpayers would not realise how high compliance costs were in relation to liability until the tax had been in operation for some time. Few would have appreciated this point at the time of the White Paper in February 1974. Only when accountants' bills started to roll in during the latter part of 1975 or early 1976 would the relationship between compliance cost and tax liability have been appreciated; and even then it might have been masked for many taxpayers by being included in a composite bill for a number of accountancy services. When the bills did arrive complaints were directed to the accountants, but many tax-

payers were mollified because the bills for the tax itself were often much less than taxpayers had feared when the tax was first mooted.

### *Failure of the Wealth Tax*

What, then, is the overall judgement of the WT? Although it brought with it some minor administrative advantages, it singularly failed to achieve its prime aim of improving the horizontal equity of the tax system; and it made little or no impact on the distribution of wealth which was its secondary aim. Whilst the effects of the tax on economic behaviour were exaggerated and probably negligible, it was abnormally expensive to operate for the revenue it generated and would have remained so without major changes in structure. The Irish WT must be regarded as a costly failure.

#### *Reasons for Failure*

Why, then, did it fail? A number of reasons can be suggested. First, deficiencies in the policy-making process. The implications of a WT were never thought out prior to commitment, either by FG or by the Labour Party. Moreover, commitment by FG was in large measure an *ad hoc* reaction to a particular problem which was putting the Party under considerable political pressure — the difficulties of farmers faced by ED at a time of soaring land prices. In neither Party had there been any significant research input into the decision to adopt a WT. Nor was the FG Party, at any rate, fully committed to the principles behind the capital tax package, as outlined in the White Paper.

The unpreparedness and lack of political will made the Coalition an easy prey to the numerous interest groups (whose activities are described in Chapter 6) seeking both general and particular concessions.

The failures of preparation and political will-power were compounded by a third, the misjudgement of the White Paper. The White Paper promised a heavy WT on which it would have been difficult to hold the line even with the best of preparation and the utmost determination. In the event the White Paper maximised opposition to the WT leading to a massive Government retreat — and a disorderly retreat at that, so that the WT which ultimately emerged lacked the logic which a milder WT might have possessed. The early successes achieved by the opposition encouraged them to press further. While the Labour Party failed to campaign actively for the WT, FG feared to lose some of its traditional support because of the tax.

The Coalition was also unlucky. The introduction of the WT could hardly have been at a worse time than the combination of depression and inflation which followed in the wake of the oil crisis of 1973. In this situation the

Coalition could not afford to take risks with the economy. The plaintive or raucous cries from businessmen, farmers and investors had to be taken seriously. Any outflow of funds in this situation would be especially harmful. Moreover, the WT was introduced against a background of rapidly increasing real tax burdens. Further, the financial exigencies of 1975 largely prevented the Coalition Finance Minister from implementing the promise of the White Paper to reduce top rates of income tax when WT was brought in. Had this reduction proved possible it would have helped to silence the opposition, reduced the possibility of detrimental economic effects and increased the chance that the WT would have had a beneficial effect on resource use.

Another reason for the failure of the tax also stems from inadequate thought and preparation — the method of administration. The tax was introduced in a hurry. Staff were transferred from the old ED office to WT administration and the same methods used as for ED; hence the heavy administrative and compliance costs. Had the Civil Service had more time to consider the tax and perhaps to examine more closely the administrative methods of other European countries with wealth taxes, the burden of administrative and compliance costs might have been reduced.

The limitations of the Irish WT, the continuing opposition to it, its small contribution to revenue and, above all, the belief that it was detrimental to economic growth, account for the willingness of FF to abolish it. The same reasons, except perhaps the last, and the conviction that it had lost them political support, explain FG's subsequent repudiation of a WT.

Undoubtedly, some of the deficiencies in preparation, planning and implementation could have been avoided and we will comment on these possibilities in the next and final chapter. But it is also necessary to raise some more fundamental questions. How far is it possible at reasonable cost to achieve the sought after objectives even from the most flawless of practicable wealth taxes? Are there inherent limitations in a WT which prevent such achievement? And how far are the various objectives compatible with each other and attainable at acceptable economic cost? These matters form the subject of the final chapter.

## Chapter 11

## *REFLECTIONS AND RECOMMENDATIONS*

This final chapter contains reflections on what may be learned from the story of the Irish WT both about an annual wealth tax and about the process of tax policy-making. It seeks to answer such questions as how far were the defects of the Irish WT remedial? How far was the tax capable of achieving the objectives sought by those who advocated it? Were there other and better ways of meeting the same objectives? Then, drawing on a recent study of the tax policy-making process in the UK (Robinson and Sandford, 1983) by way of comparison and contrast, the chapter examines in what ways the tax policy-making process in Ireland might be improved.

### *A Better Wealth Tax*

#### *Equity*

In line with wealth taxes elsewhere, the prime purpose of the Irish WT was to improve the horizontal equity of the tax system. A WT was seen as a complement to income tax, capable of encompassing the additional taxable capacity conferred by wealth over and above the income, if any, derived from it. The analysis in this chapter, therefore, concentrates on the equity objective but also says something about the other possible goals of the WT.

The earlier analysis, especially that of the previous chapter, demonstrated how far short the Irish WT came in relation to the equity objective and, by implication, indicated the measures needed to improve the tax. At the same time, if the objective is to be attained at an acceptable cost, the ratio of operating cost to yield must be much lower than that of the Irish WT as enacted.

The equity objective relates to wealth at all levels; hence the threshold should be set as low as practicable and certainly no higher than the levels of the White Paper.

Exemptions and reliefs cut across the equity principle by favouring holders of some kinds of assets relative to those of other kinds. For horizontal equity the fewer the exemptions the better. Such a principle is easy to enunciate but difficult for a politician to sustain in the face of the pressure from interest groups. A successful maintenance of the principle is easier if the rate of WT is kept low and if the introduction of a WT is accompanied by a reduction in income tax. A one per cent rate, as with the Irish WT as

enacted, is entirely compatible with the equity objective.

Almost certainly, the most serious economic consequence of the WT was the high operating costs in relation to yield, estimated to be at least 20 per cent of the revenue (25 per cent for individuals) and which could be expected to remain high because of the low revenue yield and the method of administration. Correspondingly, reducing the ratio of operating costs to yield can be achieved by raising the yield without increasing costs in proportion or by reducing costs without lowering yield in proportion. In fact there is scope for progress on both fronts.

Even apart from its effect on cost/yield ratios, there is a case for seeking to step up the yield from a WT if all the hassle of introducing one is to be worthwhile. One of the criticisms levelled against the WT and one reason given for abolishing it, was that the revenue was pitifully small.

The measures necessary to make WT a much more effective instrument to improve the horizontal equity of the tax system would at the same time increase the yield; and some would certainly not raise compliance and administrative costs in proportion. Starting from the basis of the WT as enacted, we can make some rough estimates (perhaps "guesstimates" would be more accurate) of the revenue consequences of eliminating exemptions and reliefs and lowering thresholds. The figures are in 1976 prices to provide a more reliable statistical base and to facilitate comparison with the enacted WT. The details of the calculations are set out in Appendix C. It is convenient to distinguish three separate elements in the revenue effect of eliminating exemptions and reliefs; the first is based on data from the Revenue Commissioners' Reports for 1976, the other two are much more tentative and derived from an updating of Lyons' estimations of the distribution of wealth in 1966. Whilst the method used is crude, such updating is necessary because of the lack of any official estimates. The limitations of Lyons' figures have been touched on in Chapter 4 and considered in more detail in Appendix C. The attempt to update them introduces other sources of error, principally in estimating the growth of wealth in money terms between 1966 and 1976 and in the possibility that the wealth distribution may have altered significantly in the intervening decade. Hence the revenue estimates can only be given in the broadest terms and cannot be regarded as anything other than a possible indication.

The three separate revenue effects to be distinguished in the calculation are: (1) from abolishing exemptions and reliefs on existing WT payers; (2) from the additional WT payers who would be brought into the tax net by the abolition of exemptions and reliefs at the enacted WT thresholds; (3) from lowering the thresholds.

(1) Excluding interest, the WT yielded a revenue of £5.08m (annual average). It is estimated that abolishing exemptions would have added £1.04m from WT payers (£0.98m from individuals) and eliminating all exemptions and reliefs would have added a further £1.09m (of which £0.88m would have come from individuals). Thus eliminating all exemptions and reliefs would have increased the yield from existing WT payers from £5.08m to £7.2m or by approximately 42 per cent. Whilst, on the one hand, it may be unrealistic to assume that all exemptions and reliefs could, or indeed should, be eliminated (e.g., reliefs for heritage assets) on the other hand, there can be little doubt that, because they were never tested, the values given to the Revenue Commissioners for exempt assets were often under-estimates.

(2) Using Lyons' data, and assuming an average effective threshold of £100,000, then the "minimum" estimate of the *total* yield of a one per cent WT would have been £13m – or an addition of some £5.8m as a result of bringing into the net those excluded by the effect of exemptions and reliefs.

(3) On the basis of a £50,000 average threshold, with no exemptions and reliefs, the "minimum" estimate of the total yield of a one per cent WT would have been some £22m or an addition of £9m to the £13m resulting from a tax with a threshold of £100,000.

We can only speculate on how this increased yield would have affected operating costs if methods of administration had remained unchanged. Eliminating exemptions and reliefs for existing WT payers would certainly have been expected to improve the cost/yield ratio. Relieved assets had to be recorded and valued either way, but abolishing the reliefs would have removed the need for extra calculations. As for exempt assets, these had also to be recorded and valued under the WT as enacted, but it is to be expected that, if exempt assets were taxed, taxpayers would take more trouble (and expense) over valuation and sometimes be in conflict with the Revenue Commissioners who would check values and query them on occasion. Thus compliance and administrative costs would have risen. On balance, however, one would expect a very marked improvement in cost/yield ratios from the effect on existing WT payers of eliminating exemptions and reliefs.

The other two changes are more problematical in their effects. The greater simplicity of the tax (without exemptions and thresholds) would make for lower costs; but the numbers of new taxpayers brought into the tax net would rise much more than in proportion to the rise in revenue and this would make for relatively higher compliance and administrative costs. It

must, therefore, be unclear whether a WT with no exemptions and reliefs and lower thresholds would improve cost/yield ratios if administrative methods remained unchanged.

Whatever the balance of advantage, however, there is a clear need for changes in administrative methods. Although no figures can be quoted, it wold appear that operating costs are kept down to acceptable levels in the continental countries by a series of methods. Wealth tax is administered along with income tax and normally the same tax return is used. There is not the insistence on open market valuation for all assets as with the Irish WT and official valuations are regularly made for some assets, which values are then used for several taxes. For example, real property is regularly valued in the Scandinavian countries, and the same official values used for several taxes. Thus, in Sweden, the value of land and houses is used for local taxation and (in the case of owner-occupiers) for an imputed rental income for income tax, as well as for wealth tax and other capital taxes. For closely-owned businesses a formula is used which links with the data required for income tax or company tax. Moreover, the promulgation of official values relieves the taxpayer of compliance costs.

There can be no doubt that eliminating exemptions and reliefs, lowering thresholds and modifying administrative methods in the manner outlined would make a wealth tax a much better instrument for promoting tax equity. But there remain some considerable and major limitations. There is the very real political difficulty of resisting the clamour for exemptions and reliefs. The experience of wealth taxes everywhere suggests that not all the threats or blandishments of interest groups can be resisted. Then there is the problem that the rest of the Irish tax system is not such as to lend itself to the administrative proposals suggested. The experience with formulae valuations has not been a happy one and real property valuations have hardly been notable for their frequency. Moreover, with the abolition of local domestic Rates and the failure to tax the imputed income from owner-occupied homes, the scope for tying in WT valuations with other taxes in Ireland has been much restricted. For all countries with wealth taxes there is a basic problem in securing realistic values for items of small bulk, no income yield and high value, like jewellery, antique furniture and paintings. These are assets to which the horizontal equity argument particularly applies; yet in practice, because of the administrative difficulties, countries either have to exempt them almost completely (as the Irish and the Danes, in totally exempting house contents) or accept the taxpayer's values on trust, knowing that they are likely to be substantial under-valuations (as in Sweden).

Over and above these difficulties, there remain two substantial and virtually insuperable problems which mitigate the effectiveness of a wealth tax

as an instrument for achieving horizontal equity. Both were mentioned in the introductory chapter when we were concerned to define the wealth tax base, and, hence, will only be mentioned briefly here. One is the problem of human capital. In failing to tax the capitalised value of future earning power a wealth tax is biased against investment in physical assets compared with investment in education and training. More significant is the second problem of the taxation of accumulated pension rights.

A man with pension rights needs to save far less to secure his future in retirement than a man without such rights, while pension contributions are in themselves a major form of personal saving. As saving is subject to wealth tax, so there is a strong case for including the capitalised value of future pension rights in the wealth tax base. Yet pensions are not marketable and only to a limited extent transferable; moreover, the calculation of their present value requires assumptions about life expectancy, rates of return and rates of inflation which must necessarily be somewhat arbitrary. To omit pension rights from the wealth tax base, as is usual with wealth taxes, is to create a major inequity; but they can only be included on the basis of arbitrary assumptions which must necessarily do injustice to some – particularly any single person who dies before retirement and therefore pays wealth tax on pension rights he never enjoys.

A comprehensive wealth tax with low thresholds and acceptable operating costs can do something to promote the horizontal equity of the tax system; but even the best practicable wealth tax is imperfect for this purpose. Moreover, there is a real danger that, in practice, the tax will generate as many inequities as it alleviates. It must be doubtful if it is worth the candle or the cost.

*Reducing Inequality*

The WT, as enacted in Ireland, made no significant contribution to reducing inequality in wealth holding. A WT could be devised which would. An additive WT – one which, together with income tax, could only be paid by the wealthy if they disposed of assets – would have the most substantial and direct effect in reducing inequality; but, almost certainly, it would do so at a high economic price. It would be far more difficult for closely-owned businesses to expand. Such a WT would discourage new enterprise. It would have problematical effects on agriculture. It might well discourage saving and lead to dissaving. It would generate evasion and avoidance, including the transfer of assets outside the State. The tax of the White Paper, with its top rate of two and a half per cent, might have had some effects of this kind, if it had been enacted, unless accompanied by significant reductions in income tax or such widespread exemptions or reliefs as to undermine any preten-

sions of promoting horizontal equity.

The White Paper considered that reducing inequality was a subsidiary function of a WT and looked to CAT as a means of promoting this objective. There are, undoubtedly, more acceptable ways of achieving a reduction in inequality of wealth holding. A WT, unless accompanied by such exemptions and reliefs as would seriously cut across the equity objective, is indiscriminate in its approach. In principle, a WT taxes wealth irrespective of its source or its use. Whether, or how far, one wishes to reduce wealth inequalities is a value judgement; there are many who might jib at a WT but accept a more discriminating approach. Thus they would not wish to see an annual tax on the wealth of a man who had acquired it by hard work, enterprise and saving, but would find an inheritance tax (with appropriate reliefs for widows and minor children) entirely acceptable.

As a way of reducing inequality, an inheritance tax, or more precisely an accessions tax, which taxes the recipients of legacies and gifts on a cumulative basis irrespective of source, has very much to commend it. As the White Paper recognised, inheritance is a major source of inequality in wealth distribution. Moreover, a tax levied at death is a form of capital tax which is free of many of the problems associated with an annual WT. Problems of pension rights or of valuing human capital do not arise. The administrative problems are also less because, at death, an inventory and often a valuation of the estate is necessary anyway to carry out the will of the deceased or implement the law of intestacy — as distinct from an annual WT, when valuations are for tax purposes only. With a heavy, or moderately heavy, inheritance tax, methods of administration involving open market valuations are much more appropriate than with a WT. Moreover, there are less likely to be any serious detrimental economic consequences. (For a full discussion of this point, see Sandford, *et al.*, 1973).

*Other Objectives*

The other objectives of a WT are minor compared with those already considered. As we have already suggested, there are reasons for doubting the general reliability of the argument that a WT promotes efficiency in resource use, particularly if it contains exemptions and reliefs which necessarily become tax havens. The administrative advantages claimed for a WT would be more fully attained by a WT with a low threshold administered along with income tax than with the Irish WT as enacted. The final argument for a WT mentioned by the White Paper was to replace ED by a tax which raised fewer liquidity problems for farmers and businessmen. Some contradiction in aims is evident here, for any tax which is going to be effective in reducing wealth inequalities is going to generate liquidity problems for the wealthy.

It could certainly be argued that it is better to face the issue at a time when a change in ownership is necessary anyway, than to have a tax which is a continual drag on a business.

*Conclusion on a Wealth Tax for Ireland.*

The outcome of this discussion must be a matter of judgement rather than of irrefutable logic. The judgement of the authors is that a WT, administered along with income tax, with a low threshold and minimal exemptions and reliefs, would do something to promote horizontal equity; but it would be a far from perfect instrument, with inherent limitations (like the problem of taxing pension rights), political limitations (the difficulty of resisting pressure groups) and practical limitations (the inability to find an economical method of administration in the Irish context). Such a tax would bring some administrative advantages, but those must be counted a minor merit. It would do little to reduce inequality of wealth holding. It is doubtful if such a WT is worth pursuing at any time. To try to reintroduce a WT in Ireland, after its previous rejection, would be particularly difficult and liable to raise all the opposition and all the prejudices occasioned by the earlier tax.

In the Irish context the wise procedure might well be to improve the capital taxes to hand, rather than developing new ones, in particular to build on the CAT. The Capital Acquisitions Tax was converted into a full accessions tax by the 1984 budget, which provided that, for purposes of determining the rate of tax, all previous gifts and legacies should be taken into the reckoning, not just those from the same donor. However, there remains much scope for improvement.

It might be argued that, to put all the weight on an accessions tax is to do little more than revert to the earlier position under ED. In fact, there is a major difference. An accessions tax taxes what a beneficiary receives irrespective of the size of estate from which it comes. This is more effective than an ED in promoting equality. First, and most important, it is large receipts and not large estates as such, which perpetuate inequality; an accessions tax, therefore, imposes tax where it matters most. Secondly, an accessions tax provides an incentive to the wealthy to give or leave their wealth to those who have received little by way of gift or inheritance because, by so doing, they can reduce the tax take and themselves dispose of a larger proportion of their wealth.

An accessions tax has other merits. Someone concerned with the possible impact of tax on a business can minimise it if they are prepared to disperse ownership. Moreover, it seems more logical and fair to impose tax on what is received rather than on what is left by those who can no longer enjoy it.

Whilst an accessions tax is less able to promote horizontal equity than a

perfect WT, it none the less does catch, in the end, the taxable capacity conferred by wealth. In that way it does complement the income tax. If an accessions tax is accompanied by an effective CGT and (as recommended by the Commission on Taxation) an expenditure surtax, to catch spending out of capital, it would be that much the better.

In short, the authors are led to the conclusion that the most realistic way to promote the objects of capital taxation in Ireland would be to improve the CAT. This would imply much lower thresholds and possibly higher rates. It would also be desirable to index the thresholds and rate bands against inflation. Were the prices of some major asset, like land, to rise at a significantly higher rate than the consumer price index, there might be a case for some special relief — but one which was related to the asset price and which was discontinued if the special circumstances giving rise to it were to change. Indexation and such a special relief would deal with any exceptional problem such as the rise in land prices which generated the idea of a WT instead of ED.

It is of interest that the Commission on Taxation in their first report (*Direct Taxation*, July 1982) rejected an annual wealth tax. They proposed a comprehensive income tax with gifts and legacies being treated as income in the hands of the recipients. They envisaged a flat rate of income tax with progression provided (amongst other ways) by an expenditure surtax. If a more positive policy of reducing wealth inequalities was desired, they commended the accessions tax.

More recently the same verdict has emerged from the National Planning Board (Report April 1984). The Board did not consider an annual WT — an omission itself significant. They recommended reforming CAT by lowering the thresholds for gifts and inheritances, converting it into a full accessions tax (since enacted) and indexing it by reference to the Consumer Price Index. They also proposed a series of reforms to tighten up the CGT, in particular, that death should be treated as a disposal of assets. These changes would be wholly in line with the objectives of capital taxes as discussed in this paper and with the conclusions of the authors.

### *Improving Tax Policy Making*

This examination of the WT is but a single case study in tax policy-making process and to generalise from one case study is dangerous. But some features to emerge from the study are clearly of wider implication (as, for example, the lack of any research unit in the political parties or the absence of parliamentary committees on taxation). Moreover, a recent study of tax policy making which examined eight new taxes introduced (or planned) in the UK

in the 1960s and 1970s (Robinson and Sandford, 1983) strongly suggests that, whilst there are important differences, there are some major similarities between the two countries. It is not an unreasonable inference that a characteristic of policy making for eight new taxes in the UK which was also visible in respect of the Irish WT is likely to be typical of other new Irish taxes. The following paragraphs consider some of the main points of similarity and of difference between the Irish and UK experience in tax policy making.

A new tax emerges through a process of conception, formulation, preparation, consultation, legislation and implementation; then follows modification and, in the case of the Irish WT, abolition. From this process a series of stages can be identified for comment – the party stage, where the tax is usually conceived; the governmental, executive, or departmental, stage, where the tax is formulated and prepared in the revenue departments; the Parliamentary and legislative stage. In addition we can distinguish a stage of consultation and debate which may extend throughout and beyond the other stages.

*The Party Stage*

A finding common to the UK study and that of the Irish WT is the importance of the Party stage. Of the eight new taxes in the UK, seven had been the subject of study and usually of commitment by the Opposition, which subsequently became the Government. Even the one exception, Selective Employment Tax, was only a partial exception in that, although conceived in Government, it was not the product of the permanent Civil Service but the brainchild of Professor Lord Kaldor, who had advised the Labour Party in opposition and who, when the Party attained power, had moved into Government as Special Adviser to the Chancellor of the Exchequer. In the Party stage the amount of detailed study given to the tax proposals before commitment was often woefully inadequate. The UK Labour Party particularly erred in proposing new taxes without sufficiently careful consideration of their implications (e.g., Capital Transfer Tax and Wealth Tax). The Conservatives, whilst better at preparing their proposals for new taxes (e.g., VAT) were the more inclined to promise to abolish a tax (e.g., Selective Employment Tax and the domestic Rate) before they knew what they could put in its place.

The Irish WT fits only too easily into this picture. The Labour Party, which was the first to propose a WT, had not seriously explored its implications; whilst FG undertook to abolish ED without a clear idea of what its replacement entailed. Once entered into, such commitments by parties are difficult to ditch when a full examination of the implications reveals major difficulties and disadvantages, or when the economic environment renders them inopportune.

An adequate consideration of policy measures requires a sufficient range and quality of inputs to the policy-making process. Both the Labour and Conservative Parties in the UK have so-called "research" departments, but they are mainly concerned with day-to-day issues rather than in-depth studies, although the Conservatives, with a research department twice the size of that of Labour, can afford to put a researcher on to a particular problem for three or six months. Even so, neither Party has anything like the research backing which, for example, underpins the major West German political parties. The Irish parties, smaller in size and resources, cannot undertake any significant research for policy purposes.

In the UK and Irish Parties much of the input comes from voluntary advisers. Whereas on tax matters the UK Labour Party has never lacked advice from macro-economists, it has been thin on the practical input from advisers with an administrative, accountancy and business background, where the Conservatives have been strong.

In circumstances in which tax policy-making has a haphazard element about it, one articulate person with clear objectives can exercise a very considerable influence. The outstanding case is that of Lord Kaldor, in the policies of the UK Labour Party, but the point has a more general application.

Whilst it would be impracticable to suggest that political parties in the United Kingdom or in Ireland should establish their own substantial research institutes, it is not unreasonable to suggest that, before commitment, more careful consideration should be given to tax proposals and to possible alternatives than is often now the case; that such consideration should include advice from a variety of sources; and that, perhaps above all, the objectives of any tax policy proposal should be very clearly thought out.

*The Departmental Stage*

Although the relationship is not identical between, on the one hand, the Finance Department and the Revenue Commissioners in Ireland, and on the other, the Treasury, and Inland Revenue and Customs and Excise, in the UK, the role of the civil servant *vis-à-vis* the Minister is very much the same in both countries. Major decisions are made by Ministers on the basis of material supplied by Civil Servants.

One conclusion from the UK study which would appear to be equally applicable to Ireland is the lack of, and need for, a committee of Civil Servants to fulfil a strategic role in tax policy making. It would consist of senior officers from the main departments chaired by a senior Treasury (Finance) officer with a permanent brief to examine the implication of possible changes and reforms in the tax system including the relationship between tax and social security provisions. The Committee would take a

forward and sideways look and would include a regular examination of tax reliefs and their effects and cost (in terms of revenue forgone). It would be a proposing, co-ordinating and monitoring body. In the UK there is such a committee on the public expenditure side (known as PESC – the Public Expenditure Survey Committee) but not on the tax side.

It is noteworthy that the Revenue departments in both countries (like the political parties) lack a research unit and appear not to be very original in their thinking. They see their primary role as keeping the revenue flowing in and, in pursuance of this role, their methods tend to be conservative and incremental. If resources do not permit them a significant research division, at least they should be able to commission work.[58]

*Parliamentary and Legislative Stage*

One major problem in the UK, which is also relevant to Ireland, is the congestion in the House of Commons. Inadequate consideration is often given to new taxes contained in Finance Bills along with a mass of more technical financial legislation, all of which has to be completed to a very tight timetable.

Where the UK system does score over the Irish is the bigger part played by Parliament, not least through the revival of the Parliamentary Select Committee as an instrument for discussing, taking evidence and making recommendations on tax proposals. Select Committees are not invariably used with respect to new tax proposals in the UK, but were used for three of the eight taxes and their recommendations were, undoubtedly, influential. The clearest case was on corporation tax, where the Government accepted a recommendation for an imputation system though it had earlier indicated it preference for a split-rate tax. There is a strong case for the use of Select Committees of the Dáil to play a similar role in respect of new taxes in Ireland. (Although fourteen Oireachtas Committees were established in 1983, none deals with taxation.)

*Consultation and Debate*

Select Committees can play a very important part in the whole process of consultation and debate surrounding a new tax. During the 'sixties and 'seventies the UK Governments developed the practice of issuing "Green Papers" on new tax proposals. Where Select Committees were set up, the Green Papers formed the text for the evidence they collected and the views they expressed, but Green Papers were also issued when there was no Select Committee. In theory, Green Papers are thought of as discussion papers and

58. This development is now taking place in the UK partly through a new consortium of Treasury, Inland Revenue, Customs and Excise and the (State-funded) Economic and Social Research Council.

White Papers as representing statements of Government policy. In practice, the distinction is far less clearcut, with some Green Papers setting out hard items of policy and the contents of some White Papers being subject to major amendment. None the less, a Green Paper is a document for discussion, in which at least some items are left open to be resolved in the light of the debate. Green Papers have varied considerably in format, but the more useful ones have been those in which proposals were set forth in fairly precise terms and in which some items are laid down as determined Government policy whilst others are left open.

The use of Green Papers and Select Committees and the wide area of consultation with interest groups and professional bodies in the UK, has reduced the possibility of mistakes in legislation which have to be rectified by amendments in subsequent finance bills. But these developments have also increased the opportunities for interest groups to present their views. The number, activity and influence of such groups has grown in recent years. Although the single case of the WT does not enable us to say that interest group activity has grown in Ireland, one strongly suspects that it has; certainly as we have shown, the influence of pressure groups on the structure of the WT was very marked.

Active participation by interest groups is a part of the democratic process of discussion and, as such, not to be deplored. But the pressures they can exert make it all the more necessary for a Government (perhaps when in opposition) to have formulated its policies clearly, explored their implications fully and prepared themselves to counter arguments presented by interest groups. It is also important that MPs and TDs should have research information available to them so that they are better able to assess the propaganda to which they are subjected.

### *The Process of Tax-Policy Making*

The study of the eight taxes in the UK and of the Irish WT make it clear that the process of tax-policy making is far from being a model of rational decision making. Such a model would take the form of perceiving a need; considering alternative ways of meeting it; then, allowing for the costs and constraints, choosing the best way. Thereafter the policy would be implemented and monitored to see how far expectations were achieved and modified as required.

In practice, policy making is far more messy. Objectives are far from clearly spelt out. Many alternatives are not considered. A "satisficing" rather than an "optimising" policy is adopted – that is, a path is pursued by which the objectives are met or partly met, but without any real search for the best

instruments. Radical policies – where the policy makers go back to roots – are rarely adopted, but instead the emphasis is on incremental change, step-by-step moves from an existing situation. With the growth in importance of interest groups in a complex economy, tax-policy making takes on some of the characteristics of a bargaining process in which, say, a Government agrees to introduce a capital tax in exchange for a trade union commitment to an incomes policy; or to grant a particular tax relief to avoid a loss of electoral support from a powerful lobby.

In short, policy making, far from being a thought out, rational process of optimisation is, in the words of C.E. Lindblom (1977, p. 323) "an untidy mixture of social interaction and limited analysis". To say this is not to decry the politicians whose prime responsibility it is. They live in a world of second best where the theoretically ideal must be tempered with the political reality. But neither is it to condone all that they do. The amount of "analysis" going into tax-policy making could be considerably increased. It is for the academic, in a study like this, to provide the analysis and for the politician, constrained though he may be, to use at least part of it. The WT could have been a better tax than it was – with clearer objectives, better prepared, better presented and better implemented. The same story could be repeated over the Residential Property Tax.

At the time of writing another form of capital tax seems to be in the offing in a land tax of some kind.[59] It remains to be seen if any of the lessons from the WT have yet been learned. Interestingly, two of the most notable features of the debate on land tax have been the recognition of the serious valuation problems, and the strident lobbying by the Irish Farmers' Association.

There remains a final point to stress – the cost of poor tax-policy making. Of the eight UK taxes, all of which were mainstream, two, although they were taken to the point of legislation have not, as yet, been implemented. One of these, an annual wealth tax, remains a declared objective of the UK Labour Party. Two more (Corporation Tax, classical style and Selective Employment Tax) have been abolished. Of the remaining four, three (Capital Gains Tax, Capital Transfer Tax and Corporation Tax) have been changed almost out of recognition. Only VAT remains in a form not so very different from when it was introduced and even that has suffered from intervening changes (like the introduction, modification and removal of a higher rate) and remains the subject of attack because of the high compliance costs on small businesses. The Irish WT came and went. The other capital taxes

59. See *Building on Reality 1985-1987*, paras. 6.16 and 6.17, National Plan (1984).

introduced at the same time, CGT and CAT have been subject to some major changes of structure.

Such experiments in tax reform are very costly. There is a welfare and often an economic cost in the alteration of people's economic behaviour to accommodate the tax. Social behaviour and the arrangements of family life may be modified. When a new tax replaces an old, much intellectual capital – of accountants, solicitors, administrators – is made obsolete and a big new learning process is necessary. Large numbers of people in a wide range of interest groups spend much time and effort in trying to understand the implications of the tax and conducting a wide-ranging defence of their interests. The time of parliamentary draftsmen and legislators is heavily committed. Compliance and administrative costs are necessarily high with a new tax. All this reinforces the adage that "an old tax is a good tax".

But this book is not intended to constitute a plea for doing nothing. To any close student, it is clear that the Irish and the UK tax systems, as they currently exist, are in the most appalling muddle.[60] It is a plea not for less tax reform, but for better tax reform. And one essential pre-requisite of better tax reform is to improve the process of tax-policy making.

60. This is one of the main conclusions to be drawn from the Report of the Meade Committee in the United Kingdom (Meade, 1978) and the Reports of the Commission on Taxation in Ireland (1982, 1984).

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## Appendix A

## *STATISTICS ON THE WEALTH TAX*

This Appendix presents, in summary tables, the Revenue Commissioners' (RC) published statistics on the Irish WT, which provide the basis for the discussion of "who paid WT" in the main text, especially Chapter 2. The Appendix also presents definitions of the central terms, i.e., categories of wealth and classes of assets. Much of the Appendix is of a technical nature and may make for tedious reading — the main purpose is to clarify the terms and specify the limitations of the data.

*Wealth Terminology*

As identified in Chapter 1, four terms are used to specify different elements of the wealth of a person: gross, net, assessed and taxable wealth. These terms are not directly comparable with the terms used by the RC. Accordingly, the RC terms have been adjusted as specified below.

*Gross Wealth* The total value of all assets held by a person without any deductions being made for debts. The Market Value figure given in the RC reports is comparable to this definition and was published in respect of all classes of assets except Class E (defined below). In order to obtain a total gross wealth figure (i.e., gross wealth of a given population of assessable persons, e.g., individuals), the Market Value for Class E assets was estimated (see note, Table A.4). When referring to single, or classes of, assets, we use the term gross value, rather than market value.

*Net Wealth* The value of a person's assets once debts have been deducted, i.e., gross wealth less debts; it is a measure of a person's net worth. The RC figures neither distinguished the debt element in Market Value nor provided any estimate of net wealth. From our co-operating accountants' sample of individuals, debts have been estimated as roughly 7.6 per cent of assessed wealth. Assuming this holds true nationally, the RC figure of £498.3m for assessed wealth (annual average, Table A.3) would indicate debts of £37.87m. This figure excludes debts on exempted property of around £2.17m (estimated from RC figures); therefore annual average total debts could have been about £40m. Net wealth can be estimated by deducting this figure from gross wealth: £724.5m - £40m = £684.5m. The estimation of debts and net wealth for Discretionary Trusts and PNTs was a more elaborate, but

no less tentative, method (see Tables A.8 and A.9).

*Assessed Wealth* Net wealth minus exemptions and reliefs; it is directly comparable to the figure for Net Market Value used in the RC Reports. When referring to single, or classes of, assets we use the term assessed value.

*Taxable Wealth* This term represents assessed wealth minus thresholds, and designates the value of wealth on which WT was charged. The corresponding RC term was Assessment Value. Thresholds only applied to individuals so that for Discretionary Trusts and PNTs, both assessed and taxable wealth were identical.

Thus, the derivation of WT liability can be clearly outlined:

gross wealth (GW) - debts = net wealth (NW)
NW - exemptions, reliefs = assessed wealth (AW)
AW - thresholds (for individuals) = taxable wealth (TW)
1% of TW = WT liability.

However, the figure for WT liability in the RC Reports did not equal one per cent of TW. The "Net Produce" of WT was the RC estimate of the expected yield of WT based on assessments made and taking into account ceiling relief, interest charges, and refunds of excess payments on account. The variance between "Net Produce" and "WT liability" is shown in Table A.1.

*Averaging of Data*

The WT statistics in the RC Reports 1976-1981 do not provide a breakdown of WT revenue by date of valuation (i.e., the three valuation dates in relation to which the tax was chargeable: 5 April 1975; 5 April 1976 and 5 April 1977) so that changes in the composition of wealth, or in liability for WT, cannot be analysed over the period of operation of the tax. The data do not permit the presentation of complete WT statistics referable to a given valuation date. By aggregating the WT data from the six RC Reports available at the time of writing (1976-1981) and dividing the total by three, an estimate of the composition of wealth and liability for an "annual average" valuation date is obtained. (This estimate is denoted "Average" in the tables.)

The years listed in the first column of Tables A.1 to A.10 below refer to the RC Report of that year, i.e., the figures in the row corresponding to each year are taken from the RC Report of that year. The period to which each report refers varies:

1976 — the WT data in the 1976 RC Report refer to assessments made between 16 August 1975 and 30 April 1977[61] which were referable to the valuation date of 5 April 1975.

1977 — the data in the 1977 Report refer to assessments made between 5 April 1976 and 4 April 1977 which were referable to the valuation date of 5 April 1976.

1978 — the data refer to assessments made between 5 April 1977 and 4 April 1978 irrespective of what valuation date the assessments were referable to.

1979-81 — the data in these Reports refer to assessments made in the year preceding April 4th of the year of the report, and are not referable to any particular valuation date.

*Classification of Assets*

Assets held by individuals have been classified under five headings in the main text and in the following tables, which correspond to the classes used in the RC Reports.

*Class A* Agricultural property (land, farm buildings, structures and machinery) when included in the wealth of a farmer, as defined, was eligible for WTA Section 10(1) relief of the lesser of £100,000 or 50 per cent of open market value. Agricultural property included in the wealth of an individual who was not a farmer was entitled to Section 10(3) relief of 20 per cent of market value. A farmer could opt for whichever of these sections afforded him the greatest relief; thus a farmer whose agricultural property exceeded gross wealth of £500,000 would have opted for Section 10(3). Property of stud farms was classified as agricultural property. Taxable livestock (i.e., livestock not owned by a farmer) was also included in this category.

*Class B* Stocks and shares in a trading company eligible for 20 per cent relief under Section 10(3), and from which 80 per cent of debts could then be deducted.

*Class C* Other "productive" property. Essentially this was a residual category of property entitled to relief under Section 10(1) or 10(3), but not in Class A or B. This category included hotels which were entitled to 30 per cent relief under Section 10(3) while that portion of hotel property consisting of bedroom accommodation included in the wealth of an individual was entitled

61. The 1976 RC Report means the Report on tax receipts for 1976. This Report was not published until 1978 (a normal time lag). Therefore it was possible, although unusual, to include assessments made in 1977. They were included in so far as they referred to 1975.

to relief under Section 10(1), if this provided greater relief than 10(3). Fishing boats were entitled to relief under both sections.

*Class D* Essentially this category consisted of property situated in the State which was not eligible for relief. The largest single items were government securities and land and buildings (e.g., holiday homes, buildings that were let, that part of land attached to a residence which exceeded one acre). The majority of Class D assets were in a miscellaneous category which would have included assurance policies, bank deposits, etc.

*Class E* Property situated outside the State. RC data gave no gross wealth figure for such property. The major portion of this property, some 70 per cent, was situated in Great Britain with around 15 per cent in the US.

Assets comprised in the wealth of Discretionary Trusts or PNTs are classified under four headings which are basically similar to those for individuals, with some differences as explained below.

*Class B* Stocks and shares in a trading company. These assets were eligible for 20 per cent relief under Section 10(3).

*Class C* As for individuals. This is a residual category of assets used directly in the provision of employment in the State and therefore eligible for 20 per cent relief. Agricultural property held by Discretionary Trusts or PNTs constituted the major portion of this class (Class A did not apply to Discretionary Trusts or PNTs as neither were eligible for the special relief).

*Class D* As for individuals. In the case of PNTs a significant portion of such property (but less than half) consisted of land and buildings. In the case of Discretionary Trusts about 60 per cent of such property was classified as miscellaneous.

*Class E* As for individuals. Again, Great Britain accounted for the greatest share of such holdings, especially for PNTs, but the US was not as significant as for individuals.

*The Interest Charge*

If WT liability was not paid within three months of the valuation date (i.e., 5 July 1976 and 1977) or by 5 December 1975 (in reference to the 1975 valuation date) then interest was charged at 1.5 per cent per month, or part of a month, from then until the date of payment. If the date of pay-

ment was within a month of the date of assessment, interest was not charged after the assessment date. No interest was charged on any portion of liability covered by a payment on account. If payment on account exceeded liability the excess was repaid with 1.5 per cent interest per month. The Finance Act, 1978, which abolished the WT, reduced the interest rate on tax outstanding to 1.25 per cent per month.

*Appendix Tables*

Most of the tables can be understood in the light of the above explanations but notes and comments are included where appropriate. (The categories of assessable persons are explained in Chapter 2). The first two tables are general; Tables A.3-A.5 relate to individuals only; Tables A.6 and A.7 relate to all assessable persons; and Tables A.8 to A.10 relate to Discretionary Trusts and PNTs.

Table A.1: *Liability and net produce of wealth tax*

| *Year* | *(1) WT liability £'000s* | *(2) Net produce £'000s* | *(3) Difference (2) - (1) £'000s* | *(4) Difference (3) as % (2) %* |
|---|---|---|---|---|
| 1976 | 3,489 | 3,489 | – | – |
| 1977 | 1,321 | 1,321 | – | – |
| 1978 | 4,209 | 4,189 | -20 | -0.48 |
| 1979 | 3,781 | 3,918 | 137 | 3.51 |
| 1980 | 853 | 951 | 97 | 10.24 |
| 1981 | 1,561 | 1,891 | 329 | 17.41 |
| *Total* | 15,215 | 15,759 | 544 | 3.45 |

Comment on Table A.1

A positive difference (in Column 3) between WT liability and net produce represents the interest element in net produce which, unsurprisingly, rises the later the assessments were made. The difference is slightly negative for 1978, implying either net refunds of payments on account or net ceiling relief, or both. It should again be noted (see Chapter 2) that, by 1984, Exchequer receipt of WT had exceeded £20m[62] and, as total WT liability was £15.2m, approximately £5m was apparently interest, very little of which was included in net produce estimates.

62. See Dáil Debates, 19 June 1984, PQ. 478. The cumulative net receipt of WT by end 1983 was £20,197,141.

Table A.2: *Numbers of assessable persons, 1976-81*

| Year | Individuals | | | | DT | PNT |
|---|---|---|---|---|---|---|
| | *Single* | *Married* | *Widowed* | *All* | | |
| 1976 | 427 | 1,085 | 201 | 1,713 | 929 | 1,267 |
| 1977 | 137 | 329 | 64 | 530 | 649 | 419 |
| 1978 | 581 | 1,251 | 324 | 2,156 | 796 | 1,142 |
| 1979 | 406 | 1,038 | 224 | 1,668 | 273 | 567 |
| 1980 | 61 | 189 | 35 | 285 | 78 | 125 |
| 1981 | 120 | 551 | 82 | 753 | 96 | 222 |
| *Total* | 1,723 | 4,443 | 930 | 7,105 | 2,821 | 3,742 |
| *Average* | 577 | 1,481 | 310 | 2,368 | 940 | 1,247 |
| *Distribution per cent* | 12.7 | 32.5 | 6.8 | 52 | 20.6 | 27.4 |

*Note:*
*Distribution:* the numbers of each type of assessable person expressed as a percentage of the total.

Table A.3: *Derivation of individuals' WT liability*

| *Year* | $GW^e$ *£m* | *AW* *£m* | *TW* *£m* | *Net produce* *£m* | *No. of taxpayers* | *Average liability* *£* |
|---|---|---|---|---|---|---|
| 1976 | 494.3 | 337.7 | 176.3 | 1.76 | 1,713 | 1,029 |
| 1977 | 142.0 | 101.6 | 52.1 | 0.52 | 530 | 983 |
| 1978 | 581.1 | 400.0 | 199.3 | 1.97 | 2,156 | 923 |
| 1979 | 561.6 | 395.9 | 238.5 | 2.45 | 1,668 | 1,433 |
| 1980 | 98.9 | 65.5 | 38.1 | 0.42 | 285 | 1,333 |
| 1981 | 295.7 | 194.2 | 119.8 | 1.46 | 753 | 1,594 |
| *Total* | 2,173.6 | 1,495.0 | 824.1 | 8.58 | 7,105 | – |
| *Average* | 724.5 | 498.3 | 274.7 | 2.86 | 2,368 | 1,161 |

*Notes:*

Columns may not add exactly due to rounding.

$GW^e$: Gross Wealth has had to be estimated because there are no figures of the gross value of Class E assets (Table A.4).

*AW:* Assessed Wealth – the sum of the net market value of all assets as in RC Reports (Table A.5).

*TW:* Taxable Wealth – as assessment value in RC Reports.

*Average liability:* WT liability (i.e., 1% of TW, not net produce) divided by number of individuals.

*Average:* The annual average in relation to three valuation dates. (Except for average liability, the average is the total for the six years divided by 3).

No figure of Net Wealth is included in the table because the estimate of debts is based on data not applicable to individual years nor directly relatable to RC statistics.

Table A.4: *Analysis of gross wealth of individual taxpayers by class of asset, 1976-81*

| Year | Class of asset £m | | | | | | |
|---|---|---|---|---|---|---|---|
| | A | B | C | D | $E^e$ | X | All |
| 1976 | 123.9 | 98.7 | 9.3 | 120.1 | 67.6 | 74.8 | 494.3 |
| 1977 | 34.7 | 24.0 | 2.0 | 35.3 | 26.2 | 19.8 | 142.3 |
| 1978 | 162.3 | 103.9 | 12.8 | 134.5 | 87.8 | 79.8 | 581.1 |
| 1979 | 145.4 | 104.3 | 9.3 | 120.0 | 107.3 | 75.3 | 561.6 |
| 1980 | 30.8 | 18.3 | 0.8 | 19.3 | 15.6 | 14.2 | 98.9 |
| 1981 | 65.8 | 89.2 | 7.8 | 67.2 | 29.3 | 36.4 | 295.7 |
| *Total* | 562.9 | 438.4 | 42.0 | 496.5 | 333.8 | 300.2 | 2,173.6 |
| *Average* | 187.6 | 146.1 | 14.0 | 165.5 | 111.3 | 100.1 | 724.5 |
| *Distribution per cent* | 25.9 | 20.2 | 1.9 | 22.8 | 15.4 | 13.8 | 100 |

*Notes:*

Columns may not add exactly, due to rounding.

For composition of each class of asset, see pp. 169-170.

$E^e$: Gross value of Class E assets is estimated by assuming that, for such assets, GW = AW. This is not unreasonable given that: (a) individuals would not generally borrow to purchase overseas holdings and would tend to apportion debts to domestic holdings; (b) Class E assets were not eligible for relief. Accordingly, the gross value is a minimum.

*X:* Exemptions, see Table A.6 for breakdown.

*Average:* See notes to Table A.3.

*Distribution:* The share of each class of asset in total (All).

Table A.5: *Analysis of assessed wealth of individual taxpayers by class of asset, 1976-81*

| Year | Class of asset £m | | | | | |
|---|---|---|---|---|---|---|
| | A | B | C | D | E | All |
| 1976 | 78.5 | 76.1 | 6.4 | 109.2 | 67.6 | 337.7 |
| 1977 | 23.3 | 18.9 | 1.4 | 31.8 | 26.2 | 101.6 |
| 1978 | 98.9 | 80.7 | 8.4 | 124.2 | 87.8 | 400.1 |
| 1979 | 90.8 | 80.9 | 6.5 | 110.4 | 107.3 | 395.9 |
| 1980 | 18.6 | 13.9 | 0.6 | 16.9 | 15.6 | 65.5 |
| 1981 | 40.5 | 61.1 | 4.2 | 59.2 | 29.3 | 194.2 |
| *Total* | 350.6 | 331.4 | 27.5 | 451.6 | 333.8 | 1,495.0 |
| *Average* | 116.9 | 110.5 | 9.2 | 150.6 | 111.3 | 498.3 |
| *Distribution per cent* | 23.5 | 22.2 | 1.8 | 30.2 | 22.3 | 100 |

*Notes:* As for Table A.4.

Table A.6: *Gross value of exemptions of assessable persons*

| Year | Individuals £m | | | DT | PNT |
|---|---|---|---|---|---|
| | R | S | O | £m | £m |
| 1976 | 50.6 | 15.3 | 8.9 | 2.5 | 5.2* |
| 1977 | 15.3 | 2.9 | 1.5 | 2.4* | 1.7* |
| 1978 | 57.0 | 19.6 | 3.1 | 0.5* | 2.7 |
| 1979 | 48.8 | 19.3 | 7.2 | 1.9* | 0.5 |
| 1980 | 10.3 | 3.5 | 0.4 | 0.2 | 0.4 |
| 1981 | 25.2 | 7.6 | 3.6 | 0.04 | – |
| *Total* | 207.3 | 68.2 | 24.7 | 7.4 | 10.3 |
| *Average* | 69.1 | 22.7 | 8.2 | 2.5 | 3.4 |
| *Distribution per cent* | 69.1 | 22.7 | 8.2 | 97.5 | 99.4 |

*Notes:*
Columns may not add exactly, due to rounding.
Classification of Exemptions:
- R = Principal private residence, normal contents (furniture and household effects) plus one acre.
- S = Livestock of farmers and bloodstock.
- O = Other, mainly works of art, gardens, trees and underwood and shares in PNT (if held by an individual).

Discretionary Trusts and PNTs were only entitled to "other" exemptions and bloodstock. The years in which bloodstock exemption is claimed are indicated by an asterisk.
*Average:* See notes to Table A.3.
*Distribution:* For individuals the share of each class of exemption relates to the total. For Discretionary Trusts and PNTs the percentage relates to Class O exemptions.

No figure is given for net value of exempted assets as adequate data are not available. However, for exempted assets of individuals, debts were approximately 2.17 per cent of Gross Wealth. The corresponding figures for Discretionary Trusts and private non-trading companies were 0.84 per cent and 0.14 per cent respectively. These estimates are based on published Revenue Commissioners' figures for Market Value and Net Market Value (assumed equal to net value) for exempted assets.

Table A.7: *Value of reliefs and debts, by asset, for all assessable persons, as per cent of gross wealth, 1976-81*

| *Year* | *Individuals* | | | | *DT* | | | *PNT* | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *A* | *B* | *C* | *D* | *B* | *C* | *D* | *B* | *C* | *D* |
| 1976 | 36.7 | 22.9 | 31.3 | 9.0 | 21.1 | 44.2 | 8.3 | 29.1 | 39.1 | 29.1 |
| 1977 | 32.8 | 21.4 | 27.2 | 10.0 | 22.9 | 30.4 | 5.2 | 24.0 | 36.7 | 28.6 |
| 1978 | 39.0 | 22.3 | 34.5 | 7.7 | 21.4 | 23.4 | 6.2 | 30.4 | 28.8 | 32.2 |
| 1979 | 37.6 | 22.4 | 29.6 | 8.0 | 24.1 | 25.8 | 34.3 | 31.0 | 48.2 | 35.8 |
| 1980 | 39.5 | 24.4 | 32.0 | 12.4 | – | 22.1 | 21.4 | – | 22.8 | 32.2 |
| 1981 | 38.5 | 31.6 | 45.8 | 12.0 | 22.4 | 20.0 | 12.9 | 21.9 | 35.2 | 30.3 |
| *Average* | 37.7 | 24.4 | 34.4 | 9.0 | 22.2 | 24.0 | 15.1 | 29.2 | 31.0 | 31.6 |

*Note:*
In the case of Class A and C assets, it is not possible to distinguish reliefs and debts; for Class B assets relief was 20 per cent of Gross Wealth; and for Class D assets only debts were deductible. Class E assets are excluded because no data are available for Gross Wealth, but it is assumed that there are no debts (reliefs are not applicable).

Table A.8: *Derivation of wealth tax liability of discretionary trusts*

| *Year* | *Gross wealth £m* | *Assessed wealth £m* | *Net produce £m* | *Total numbers* | *Average liability £* |
|---|---|---|---|---|---|
| 1976 | 72.8 | 60.1 | 0.60 | 929 | 647 |
| 1977 | 54.9 | 45.5 | 0.46 | 649 | 701 |
| 1978 | 73.4 | 63.8 | 0.64 | 796 | 801 |
| 1979 | 70.1 | 53.5 | 0.59 | 273 | 1,960 |
| 1980 | 41.6 | 32.7 | 0.36 | 78 | 4,188 |
| 1981 | 13.4 | 10.7 | 0.13 | 96 | 1,117 |
| *Total* | 326.1 | 266.3 | 2.78 | 2,821 | – |
| *Average* | 108.7 | 88.8 | 0.93 | 940 | 944 |

*Notes:*

As for Table A.3.

No estimate of net wealth is given due to the problem of identifying and apportioning debts. A figure for average annual net wealth was given in Table 2.3 (p. 27) and this is based on estimates of average annual debts, according to the method outlined below.

For Class D assets, no reliefs were applicable so that any divergence between gross and assessed values of such assets (Table A.7) represents debts. Thus average annual gross wealth of such assets was £30m (Table A.10), debts were 15.1 per cent of this (Table A.7), or £4.53m.

For Class E assets, debts are assumed equal to zero in estimating gross wealth.

Both Class B and Class C assets held by Discretionary Trusts received 20 per cent relief, but only 80 per cent of debts were deductible. For Class B assets average annual gross wealth was £41m. Debts and reliefs absorbed 22.2 per cent of this; if reliefs were 20 per cent then debts deducted (80 per cent of total debts) equalled 2.2 per cent of £41m, or £0.9m. Average annual debts of Class B assets were therefore £1.125m. A similar analysis for Class C assets reveals debts of £0.795m.

Average annual debts were therefore £6.5m (total for all classes) giving estimated average annual net wealth of £102.5m.

Table A.9: *Derivation of wealth tax liability for private non-trading companies*

| *Year* | *Gross wealth £m* | *Assessed wealth £m* | *Net produce £m* | *Number of taxpayers* | *Average liability £* |
|---|---|---|---|---|---|
| 1976 | 155.9 | 112.4 | 1.12 | 1,267 | 887 |
| 1977 | 46.2 | 34.5 | 0.35 | 419 | 824 |
| 1978 | 216.7 | 157.9 | 1.58 | 1,142 | 1,382 |
| 1979 | 120.2 | 86.1 | 0.87 | 567 | 1,519 |
| 1980 | 19.5 | 14.5 | 0.18 | 125 | 1,163 |
| 1981 | 34.6 | 25.9 | 0.30 | 222 | 1,167 |
| *Total* | 593.0 | 431.4 | 4.4 | 3,742 | – |
| *Average* | 197.7 | 143.8 | 1.47 | 1,247 | 1,153 |

*Notes:*
As for Table A.3.
Estimation of debts and average annual net wealth as for Table A.8.
In the case of PNTs, debts came out as: £10.937m (Class B); £2.283m (Class C); £26.29m (Class D) and no debts for Class E.
Accordingly, debts of £39.5m imply an average annual net wealth of £158.5m.

Table A.10: *Analysis of assessed wealth, discretionary trusts and private non-trading companies, by class of asset, 1976-81*

| *Year* | *DT* *Class of asset £m* | | | | *PNT* *Class of asset £m* | | | |
|---|---|---|---|---|---|---|---|---|
| | *B* | *C* | *D* | *E* | *B* | *C* | *D* | *E* |
| 1976 | 26.8 | 1.3 | 20.8 | 11.3 | 36.7 | 2.1 | 53.3 | 20.4 |
| 1977 | 17.8 | 2.2 | 15.0 | 10.5 | 13.1 | 1.2 | 13.0 | 7.2 |
| 1978 | 25.6 | 2.9 | 19.2 | 16.1 | 48.6 | 19.2 | 57.0 | 33.1 |
| 1979 | 17.6 | 1.8 | 16.3 | 17.8 | 32.4 | 2.6 | 29.7 | 21.4 |
| 1980 | — | 27.9 | 2.9 | 1.9 | — | 7.4 | 4.9 | 2.2 |
| 1981 | 7.9 | 0.3 | 2.0 | 0.5 | 7.4 | 1.8 | 12.9 | 3.8 |
| *Total* | 95.7 | 36.2 | 76.3 | 58.0 | 138.1 | 34.4 | 170.8 | 88.1 |
| *Average* | 31.9 | 12.1 | 25.4 | 19.4 | 46.0 | 11.5 | 56.9 | 29.4 |
| *Distribution per cent* | 36.0 | 13.6 | 28.6 | 21.8 | 32.0 | 8.0 | 39.6 | 20.4 |

*Notes:*

Columns may not add exactly, due to rounding.

Distribution, as for Table A.4.

Rather than giving a complete table for the gross value of all assets for Discretionary Trusts and PNTs the Average Annual gross value of each class of assets (for Class E the assessed value is used), and the distribution, is given below.

| | *B* | *C* | *D* | $E^e$ | *X* | *All* |
|---|---|---|---|---|---|---|
| DT (£m) | 41.0 | 15.9 | 30.0 | 19.4 | 2.5 | 108.7 |
| *Distribution (%)* | *37.7* | *14.6* | *27.6* | *17.8* | *2.3* | *100* |
| PNT (£m) | 65.1 | 16.6 | 83.2 | 29.4 | 3.4 | 197.7 |
| *Distribution (%)* | *32.9* | *8.4* | *42.1* | *14.9* | *1.7* | *100* |

## Appendix B

## *THE WEALTH TAX PROPOSALS AND CASE STUDIES OF THEIR POSSIBLE IMPACT*

This Appendix is composed of three parts. The first reproduces the proposals on WT as laid down in the White Paper (28 February 1974) and the second reproduces the statement, on changes to the WT proposals, made by the Minister for Finance in a speech to the CII on 15 May 1974. These were the first two stages in the development of the WT, the others being the Wealth Tax Bill (WTB) and the Wealth Tax Act (WTA). The essential details of the WTA are given in Chapter 2 and any important differences between these and the WTB proposals are to be found in Table 6.3. The major part of this Appendix, however, is the presentation of six examples of how the WT, and the changes to it, might have affected different individuals with varying asset portfolios. For each case the examples show the WT liability that would have applied to a wealth holder with the specified assets, under the provisions of the White Paper, the May speech, the WTB and the WTA.

The cases serve three purposes. First, they show how the liability of a wealthy individual would be determined. Second, for each case they quantify the effect of changes made to the WT provisions between the publication of the White Paper and the WTA, thereby complementing the discussion in Chapter 6. Third, they provide an indication of the relative importance of exemptions and reliefs, and, hence, of the effective rates and thresholds of the WT and facilitate an evaluation of the impact of the tax (thereby complementing the discussions in Chapters 2 and 9).

### *Extracts from the White Paper on Capital Taxation*

### ANNUAL WEALTH TAX

**Nature of charge**

92. (*a*) Subject to the exemptions mentioned later, the tax would be imposed on the market value of all property, real and personal, of every kind whatsoever of which a person is competent to dispose or in which he has any beneficial interest. As the tax would apply to net wealth only, provision would be made for the deduction of *bona fide* debts and encumbrances.

(*b*) The tax would apply to all property, wheresoever situated, of persons domiciled or ordinarily resident in the State and to property in the State of persons not so domiciled or resident.

Occasion of charge

93. The wealth of the taxpayer would be valued on, say, the last day of the tax year, at present the 5th April. As a fixed annual date invites evasion, safeguards would be introduced to protect the tax base from artificial depreciation of the market value of assets.

Taxpayer

94. (*a*) Basically, individual persons would be the taxpayers. Legal persons as such, for example, companies, partnerships, etc., would not normally be regarded as taxable entities. The interest of the individual in these concerns would be taxed in the hands of the individual. In special circumstances it might be found essential to treat certain entities as taxable units, e.g., private non-trading companies and discretionary trusts, with perhaps the elimination of any initial exclusion applicable to individuals. The wealth of the family, that is, of husband, wife and minor children would be added together to form one taxable unit.

(*b*) The beneficial owner of the property would be liable for tax. For the purposes of the family unit the husband would be primarily liable but separate assessments would be made if required. Trustees and any other person in whom an interest in property is vested would also be liable for payment of the tax. All or any of these persons would be required to disclose and return details of the property. The Revenue Commissioners would have the usual powers to call for accounts, information, etc., and the taxpayer would have the usual rights of appeal. The tax would be a charge on the property and remain a charge in the hands of a purchaser. Clearance certificates would be required in the event of sales.

Valuation

95. (*a*) Property would be liable at its open market value, with special provisions for some items such as shares in private companies and agricultural land. Provision would also be made for the valuation of permissible deductions such as annuities. Taxpayers would submit their own valuations. Provisional assessments would be made on those values which would then be subject to review by the Revenue

Commissioners. The Commissioners would have power to call for accounts, certificates, etc., and to appoint valuers. Taxpayers would have the usual rights of appeal.

(*b*) In recognition of the fact that the rate of return from farming is low when calculated by reference to current market values for agricultural land it is proposed that agricultural land up to £200,000 would be valued at 50% of market value. Any excess over £200,000 would be assessed at full market value. The tax assessment on sample farm estates is shown in the Appendix. This favourable treatment of agricultural land would be confined to genuine farmers, i.e., those who work the farm on a full time basis and whose wealth consists mainly of the farm.

**Rate of tax**

96. (*a*) Assessments would be made on single taxpayers whose total wealth exceeds £40,000. All wealth of such persons over £30,000 would be subject to the tax. The corresponding figures for a married man would be £60,000 and £50,000. The reason for the £10,000 gap is to minimise administrative costs both in the private and the public sectors. Progressive rates, on the successive slice system, might be as follows:

1½% on the value of an estate worth between £30,000 and £100,000 (single person)
1½% on the value of an estate worth between £50,000 and £100,000 (married person)
2% on the value of an estate worth between £100,000 and £150,000
2½% on the value of an estate worth over £150,000.

The tax assessment in sample estates is shown in the Appendix.

(*b*) There will be no overall limit on the proportion of total income which may be taken by income taxation and annual wealth tax. To mitigate possible hardship, appropriate adjustments will be made in the higher rates of income taxation.

**Exemptions and reliefs**

97. As owners of property below £40,000 (single) and £60,000 (married) would be totally exempt from tax, specific exemptions would appear to be unnecessary. Important works of art and other objects of national, scientific, hitoric or artistic interest would be exempt if they remain in the country and the public have reasonable access to them. For social, administrative and

other reasons, however, it might emerge after some experience of the operation of the tax that some other specific exemptions should be introduced.

### Administration

98. (*a*) The tax would be under the care and management of the Revenue Commissioners. An annual return of wealth would be given by the taxpayer.

(*b*) Interest would be payable on tax in arrear.

(*c*) Fairly heavy penalties would be necessary to prevent non-disclosure of assets or of essential information or other evasion of the tax. Serious undervaluation would also call for penalties but these penalties would be imposed only for fraudulent behaviour.

## *Extracts from the Speech of Mr Richard Ryan, Finance Minister, to the Confederation of Irish Industry, May 1974*

*Annual Wealth Tax*

The following changes will be made:

(1) There will be a single rate of 1% instead of the rates of 1½% to 2½% indicated in the White Paper.

(2) The exemption thresholds will be increased to £100,000 for a married man and to £70,000 for a single person instead of the effective thresholds of £60,000 and £40,000 mentioned in the White Paper. In addition there will be an allowance of £2,500 for each minor child and a new exemption threshold – of £90,000 – will be provided for widowed persons.

(3) These thresholds will be revised every three years to take account of inflation, and valuation initially agreed will remain valid for three years.

(4) Three new exemptions will be introduced –
   (a) principal private residence standing on grounds of up to 1 acre and normal contents
   (b) livestock and bloodstock
   (c) pension rights.

(5) Instead of the test for liability in respect of what might be called "world property" being domicile *or* ordinary residence as proposed in the White Paper, it is intended to apply a test of domicile and ordinary residence.

There are other aspects of the wealth tax to which particular consideration is also being given. Among these is the form of relief which may be appropriate for productive capital used in business. The need for industries and businesses can vary greatly for many reasons. They have different liquidity problems, for instance. They have different borrowing needs. They vary too, according to the nature of their assets, the yield on investment, their stage of development and whether publicly or privately owned. It is not easy, therefore, to define a suitable code for universal application. For instance one business may require a substantial stock-in-trade, another considerable machinery, the main assets of another may be in buildings as in the case of a hotel – and the hotel industry has considerable current difficulties. Further discussions will be held with the interests concerned to identify special problems. The Government's desire to see capital put to productive use will be reflected in the reliefs which will be given.

In the White Paper we undertook that possible hardship from the imposition of wealth tax and income tax would be mitigated by adjustments in the higher rates of income taxation. Contemporaneously with the introduction of wealth tax, the top rate of income tax will be reduced from 80% to 70% and the new top rate will apply to taxable incomes from £10,350 instead of £8,350 as at present. This will be achieved by substituting for the present two bands of taxable income at 50% and 65% three bands of £2,000 each chargeable at rates of 45%, 55% and 65%. Relief will, accordingly, be given to all taxpayers at present chargeable to income tax at a rate of 50% or over. I might point out that as a result of the income tax concessions which I gave in this year's budget all persons with earnings under £5,000 are now paying less income tax than their counterparts in Northern Ireland and Britain.

Despite this substantial modification in the income tax rates together with the higher thresholds and lower rate of wealth tax which I have just mentioned, the combined rate of income and wealth tax might in some cases still absorb an unacceptable high proportion of total income. Various ways of meeting this problem are being examined. For example some overall limit might be set on the percentage of income to be taken by these two taxes but with the proviso that any consequential abatement of wealth taxation would not reduce the Wealth Tax payable below a certain percentage of the assessed liability.

*Case Studies*

Six different hypothetical WT cases have been constructed for the following situations:

*Case 1* A professional man of moderate wealth, say a doctor, the major

part of whose wealth is in his residence and surgery.

*Case 2* A sole proprietor, most of whose wealth is invested in his business.

*Case 3* A wealthy businessman with many investments and a large country residence with considerable land. He owns some bloodstock but is not a genuine farmer (since 75 per cent of his wealth is not agricultural property).

*Case 4* A major hotelier, most of whose wealth is in a hotel but who also has considerable foreign holdings.

*Case 5* A large full-time farmer with 250 acres of prime land in Leinster and engaged in dairying.

*Case 6* A very large farmer (rancher) with 500 acres of prime land in Leinster, engaged in drystock and tillage.

The composition and values of assets for the two farmers were estimated on the basis of data from the Farm Management Survey (1977). For ease of comparison all the individuals are assumed married with two minor children, so that all have the same threshold. In all cases residences are assumed to be fairly valuable (a reasonable assumption given house prices and the value of normal contents). None of the amendments to the WTB affected the assets of the individuals concerned in cases 2 and 3, hence the WT liability was the same under both the WTB and the WTA. It should be noted that pension rights are excluded from all cases because they are difficult to estimate and value. Their exclusion from the cases and their exemption from WT means that the divergence between net wealth and assessed wealth is understated.

The terms used in this Appendix are generally the same as those used in Appendix A; the term Market Value (MV) is used to designate the open market value, before any deductions, of a single asset. The sum of the MVs of all assets equals Gross Wealth. With the exception of agricultural property, debts were the only deduction from gross wealth under the White Paper (WP in the tables) so that net wealth and assessed wealth were equal. The term assessed value (AV) is used for the value of an asset constituting part of assessed wealth. After the White Paper, many changes were made to the WT and to distinguish the relative effects of some of these, two concepts are used:

*Effective Rate of WT (ER)* presents WT liability as a percentage of net wealth. Since a nominal rate of one per cent was levied on taxable wealth under the terms of the May speech, the divergence of ER from one per cent represents the significance of the thresholds, exemptions and reliefs.

*Actual Rate of WT (AR)* presents WT liability as a percentage of assessed wealth. As, from the time of the May speech, the nominal rate of WT was one per cent, AR would have been one per cent in the absence of thresholds.

Thus, the divergence between AR and one per cent represents the significance of the threshold. Any divergence between ER and AR represents the significance of exemptions and reliefs. Both concepts allow us to distinguish the effects of changing thresholds, exemptions and reliefs.

The Effective Threshold is an estimate of the maximum amount of wealth an individual could have without becoming liable for WT. It is the nominal threshold plus a figure for exemptions plus an allowance for reliefs.

In the notes to the tables the abbreviation S. followed by a number, means Section of WTA (e.g., S. 10(3) is Section 10(3) of the WTA).

It would be desirable to estimate the combined burden of income tax plus WT as a percentage of total income, but this is not attempted in the examples because it would require estimates of both income and income tax which, at best, would be very tentative. Given assumptions regarding earned income, income tax and rates of return the National Economic and Social Council (NESC, 1974, Tables 2 and 3) presented estimates of this burden for married and single people. Thus, for example, they found that income tax plus WT would probably exceed 80 per cent of total income for a married man if (i) total wealth exceeded £0.5m at a two per cent rate of return or (ii) total wealth exceeded £1m or more at a five per cent rate of return. These estimates assumed WT liability to be one per cent of net wealth minus threshold. But the effective rate of WT was well below one per cent, hence, NESC overestimated WT liability and hence the combined burden of WT plus income tax.

Table B.1: *Case 1: A doctor, with net wealth of £66,700*

| *Assets* | *Net wealth* *£s* | *Assessed wealth (in £s)* | | |
|---|---|---|---|---|
| | | *WP* | *May* | *WTB=WTA* |
| Residence[a] | 20,000 | 20,000 | – | – |
| Life assurance | 10,000 | 10,000 | 10,000 | 10,000 |
| Surgery | 15,000 | 15,000 | 15,000 | 12,000[b] |
| Bank deposits | 10,000 | 10,000 | 10,000 | 10,000 |
| Shares | 11,700 | 11,700 | 11,700 | 9,360[c] |
| *Total* | 66,700 | 66,700 | 46,700 | 41,360 |
| *Threshold* | | 50,000 | 105,000 | 105,000 |
| *Liability* | | 250 | –[d] | – |
| *Actual rate* | | 0.37% | – | – |
| *Effective rate* | | 0.37% | – | – |

*Notes:* (a) Residence, in this table and in subsequent tables, refers to principal private dwelling and normal contents plus one acre.

(b) Under S.10(3) property used directly in the provision of employment in the State (a loosely applied concept which could easily include a surgery) was entitled to 20 per cent relief.

(c) Stocks and shares in a trading company received 20 per cent relief.

(d) The exemption of residence alone would have brought AW below even the WP threshold, so there would have been no liability even without the increased thresholds and reduced rates announced in May. Had the reduction of the nominal rate to a flat one per cent been the only change announced in May, liability would have been reduced by almost a third to £167.

Table B.2: *Case 2: A proprietor with net wealth of £164,000*

| *Assets* | *Net wealth £s* | *Assessed wealth (in £s)* | | |
|---|---|---|---|---|
| | | *WP* | *May* | *WTB=WTA* |
| Residence | 34,000 | 34,000 | – | – |
| Life assurance | 10,000 | 10,000 | 10,000 | 10,000 |
| Bank deposits | 10,000 | 10,000 | 10,000 | 10,000 |
| Stocks and shares | 40,000 | 40,000 | 40,000 | 32,000[b] |
| Business property | 100,000 | 70,000[a] | 70,000[a] | 56,000[c] |
| (deduct debts) | (-30,000) | | | |
| *Total* | 164,000 | 164,000 | 130,000 | 108,000 |
| *Threshold* | | 50,000 | 105,000 | 105,000 |
| *Liability* | | 2,100 | 250[d] | 30[e] |
| *Actual rate* | | 1.28% | 0.19% | 0.027% |
| *Effective rate* | | 1.28% | 0.15% | 0.018% |

*Notes:* (a) Debts offset against business property.

(b) Received 20 per cent relief under Section 10(3).

(c) This property was eligible for 20 per cent relief under Section 10(3) but the debt deduction was reduced accordingly, thus:

MV = £100,000
-£20,000 (20 per cent relief)
£80,000
-£24,000 (80 per cent of debts)
= £56,000

(d) The reduction to £250, which means that liability is only 12 per cent of what would have been paid under WP provisions, was due to three changes: the increase in thresholds (which, alone, would have reduced liability by 56 per cent); the reduction in the nominal rate (which alone would have reduced liability by 54 per cent); and the exemption of the residence (which alone would have reduced liability by 35 per cent). Because the taxpayer's wealth was not much above the effective threshold, the actual and effective rates of WT fell dramatically with the various easements.

(e) The introduction of the relief for productive property reduced liability so that, by the time of WTA, it was only 1.4 per cent of what it was under the WP.

Table B.3: *Case 3: A businessman with net wealth of £410,000*

| Assets | Net wealth £s | Assessed wealth (in £s) | | |
|---|---|---|---|---|
| | | WP | May | WTB=WTA |
| Residence | 50,000 | 50,000 | – | – |
| Life assurance | 10,000 | 10,000 | 10,000 | 10,000 |
| Other property | 200,000 | 200,000 | 200,000 | 160,000[a] |
| Bloodstock | 50,000 | 50,000 | – | – |
| Deposits | 50,000 | 50,000 | 50,000 | 50,000 |
| Shares | 50,000 | 50,000 | 50,000 | 40,000[b] |
| *Total* | 410,000 | 410,000 | 310,000 | 260,000 |
| *Threshold* | | 50,000 | 105,000 | 105,000 |
| *Liability* | | 8,250 | 2,050[c] | 1,550[d] |
| *Actual rate* | | 2% | 0.66% | 0.6% |
| *Effective rate* | | 2% | 0.5% | 0.38% |

*Notes:* (a) Assumed to be property for the use of bloodstock and business property, both of which provided employment. The 20 per cent relief therefore applied.

(b) 20 per cent relief again applied.

(c) About 25 per cent of what liability would have been under WP provisions. For a person with significant wealth, the reduction in the nominal rate accounted for the major part of the reduced liability; (alone, it would have reduced liability by 56 per cent). The high value of residence plus bloodstock relative to total wealth meant that the exemption greatly reduced AW (and, alone, would have reduced liability by 30 per cent). The high overall wealth meant that the increased threshold was the least important factor in reducing liability (but, alone, would have reduced liability by 17 per cent).

(d) This figure is only 19 per cent of what liability would have been under the WP but is less than May liability because the reliefs in WTB (unchanged in WTA) reduced AW by about 16 per cent.

Table B.4: *Case 4: An hotelier with net wealth of £975,000*

| *Assets* | *Net wealth £s* | *Assessed wealth (in £s)* | | | |
|---|---|---|---|---|---|
| | | *WP* | *May* | *WTB* | *WTA* |
| Hotel | 1,000,000 | 700,000[b] | 700,000[b] | 546,000[c] | 490,000[d] |
| Residence | 50,000 | 50,000 | – | – | – |
| Foreign assets[a] | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Life assurance | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Bank deposits | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| (deduct debts) | (-300,000) | | | | |
| *Total* | 975,000 | 975,000 | 925,000 | 771,000 | 715,000 |
| *Threshold* | | 50,000 | 105,000 | 105,000 | 105,000 |
| *Liability* | | 22,375 | 8,200[e] | 6,660[f] | 6,100[g] |
| *Actual rate* | | 2.3% | 0.89% | 0.86% | 0.85% |
| *Effective rate* | | 2.3% | 0.84% | 0.68% | 0.63% |

*Notes:* (a) There were no reliefs for foreign assets except deductions for any debts and incumbrances, which are assumed not to exist in this case.

(b) Market value less debts.

(c) Under S. 10(1) that part of a hotel, owned by an individual, which was composed of bedroom accommodation (BA) was eligible for relief of the lesser of £100,000 or 50 per cent while the remainder of the hotel (RH) was eligible for relief under S. 10(3). As the value of the hotel was apportioned between BA and RH the debts incurred on the hotel were similarly apportioned.

Assume BA =£400,000 with debts £120,000
RH =£600,000 with debts £180,000
AV of BA =£400,000 - relief - allowable debts
relief =£100,000

$$\text{allowable debts} = \frac{\text{MV} - \text{relief}}{\text{MV}} \times \text{debts} = \frac{£300,000 \times £120,000}{£400,000} = £90,000$$

Therefore
AV of BA =£210,000
AV of RH =£600,000 - relief - allowable debts
reliefs = £120,000 (20 per cent of £600,000)
debts = £144,000 (80 per cent of £180,000)
Therefore
AV of RH =£336,000
AV of hotel =£210,000 + £336,000 = £546,000

(d) Amendment 21 increased the relief for RH under S. 10(3) to 30 per cent with 70 per cent debts deductible. This reduced the AV of RH to £294,000 and the hotel to £504,000. However, S. 10(3) also provided that, where the AV of the property of an individual would be less under S. 10(3) than S. 10(1), then S. 10(3) could be applied to the entire property. This provision applied in this case so the AV of the hotel was: MV - 30 per cent MV - 70 per cent debts = £490,000.

(e) This figure is only 37 per cent of liability under WP. Given the high overall wealth, the reduction in the nominal rate was very significant (alone, it would have reduced liability by 59 per cent) whereas the exemption of residence and increased thresholds were not very significant (either of these, alone, would only have reduced liability by about 6 per cent). Since exemptions were not significant, AR and ER remained fairly close, although both were significantly less than under WP.

(f) The relief for hotels reduced the AV of the hotel by 22 per cent and liability by 19 per cent, relative to the May position, and also caused a noticeable divergence between AR and ER.

(g) The increased relief for hotels reduced the AV of the hotel by a further 10 per cent, and slightly increased the divergence between AR and ER. Liability under the WTA was only 27 per cent of liability under the WP.

*Comment on the Assessment Value of Hotels*

If an hotel was part of the wealth of an individual, two factors determined the amount of relief: (1) the size of debts; and (2) the proportion of the hotel composed of bedroom accommodation (BA). To demonstrate the importance of this latter factor three possibilities are considered; it is assumed that there were no debts.

1 BA accounted for 30 per cent of the hotel value. In this case the value of reliefs would have been 36 per cent of market value up to a MV of £667,000, declining thereafter to 30 per cent of MV once the hotel value exceeded £1.1m.

2 BA accounted for 50 per cent of the hotel value. In this case the value of reliefs would have been 40 per cent of MV falling thereafter to 30 per cent once MV of the hotel exceeded £700,000.

3 BA accounted for 70 per cent of the hotel value. In this case the value of reliefs would have been around 45 per cent up to a MV of £500,000 and 30 per cent thereafter.

Accordingly, the greater BA as a proportion of the total MV of the hotel (i) the greater was the percentage value of reliefs up to a certain value; but also (ii) the lower the MV at which the 30 per cent relief applied (i.e., the provision explained in note (d), Table B.4). The more valuable the hotel, the less beneficial was it that a large share of the hotel should be bedroom accommodation.

Table B.5: *Case 5: A farmer with net wealth of £251,000*

| *Assets* | *Net wealth £s* | *Assessed wealth (in £s)* | | | |
|---|---|---|---|---|---|
| | | *WP* | *May* | *WTB* | *WTA* |
| Residence | 20,000 | 20,000 | – | – | – |
| Agricultural land | 187,500 | 90,250[a] | 90,250[a] } | 95,250[b] } | 98,957[c] |
| Farm buildings | 10,000 | 10,000 | 10,000 | | |
| Farm machinery | 5,000 | 5,000 | 5,000 | 5,000 | |
| Livestock | 25,500 | 25,500 | – | – | – |
| Deposits | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| (deduct debts) | (−7,000) | | | | |
| *Total* | 251,000 | 160,750 | 115,250 | 110,250 | 108,957 |
| *Threshold* | | 50,000 | 105,000 | 105,000 | 105,000 |
| *Liability* | | 2,019 | 102[d] | 52 | 40[e] |
| *Actual rate* | | 1.26% | 0.08% | 0.05% | 0.037% |
| *Effective rate* | | 0.8% | 0.04% | 0.02% | 0.016% |

*Notes:* (a) The WP provided that MV of agricultural land be reduced by the lesser of £100,000 or 50 per cent to determine AV. It was not stipulated how debts would be deducted but we assume that, as relief was 50 per cent, only 50 per cent of debts were deductible, therefore:

AV = 50 per cent MV − 50 per cent Debts = £93,750 −£3,500 = £90,250.

(b) Under S. 10(1) the Agricultural relief was extended to Agricultural property (i.e., land and structures) so that MV = £197,500 and

AV = 50 per cent MV − 50 per cent Debts = £98,750 − £3,500 = £95,250.

(c) Amendment 19 extended the relief under Section 10(1) to include farm machinery. Since MV is now £202,500 the £100,000 relief applies and the debts deductible are: $\frac{\text{MV} - £100{,}000}{\text{MV}}$ x Debts = 0.506 x £7,000 = £3,543

Therefore AV = £102,500 − £3,543 = £98,957.

(d) The May provisions reduced liability by 95 per cent. The reduction in the nominal rate alone would have reduced liability by 45 per cent while the higher threshold alone would have reduced it by 57 per cent. The exemptions of residence and livestock, on their own, would have reduced liability by 48 per cent. Since the relief for agricultural land existed under the WP, the AR and ER diverged initially — the provision of exemptions further increased the divergence. Due to all the concessions, liability was minimal under the May provisions.

(e) Since liability for WT had become so low by the time of the May provisions, the extension of relief for farm buildings (WTB) and machinery (WTA) was not very significant. Liability under the WTA was only 2 per cent of what it was under WP.

Table B.6: *Case 6: A farmer with net wealth of £479,500*

| *Assets* | *Net wealth £s* | *Assessed wealth (in £s)* | | | |
|---|---|---|---|---|---|
| | | *WP* | *May* | *WTB* | *WTA* |
| Residence | 35,000 | 35,000 | – | – | – |
| Agricultural land | 375,000 | 268,400[a] | 268,400[a] } | 283,310[b] } | 293,250[c] } |
| Farm buildings | 15,000 | 15,000 | 15,000 } | | |
| Farm machinery | 10,000 | 10,000 | 10,000 | 10,000 | |
| Livestock | 40,000 | 40,000 | – | – | – |
| Deposits | 13,500 | 13,500 | 13,500 | 13,500 | 13,500 |
| (Debt) | (-9,000) | | | | |
| *Total* | 479,500 | 381,900 | 306,900 | 306,810 | 306,750 |
| *Threshold* | | 50,000 | 105,000 | 105,000 | 105,000 |
| *Liability* | | 7,547 | 2,019[d] | 2,018 | 2,017[e] |
| *Actual rate* | | 2% | 0.66% | 0.66% | 0.66% |
| *Effective rate* | | 1.6% | 0.42% | 0.42% | 0.42% |

*Notes:* (a) Relief of £100,000; debt deduction is $\frac{\text{MV} - £100{,}000}{\text{MV}}$ x debts = 0.73 x £9,000 = £6,600.
Therefore AV = £275,000 - £6,600 = £268,400.

(b) Relief extended to agricultural property. Debt deduction is $\frac{\text{MV} - £100{,}000}{\text{MV}}$ x debts = 0.74 x £9,000 = £6,692.
Therefore AV = £290,000 - £6,690 = £283,310.

(c) Machinery included as agricultural property. Debt deduction is 0.75 x £9,000 = £6,750.
Therefore AV = £300,000 - £6,750 = £293,250.

(d) The changes announced in May were sufficient to reduce liability by about 73 per cent. The reduction in the nominal rate was the most significant change and, alone, would have reduced liability by 56 per cent. The increased threshold was not very significant although, on its own, would have reduced liability by 18 per cent. The exemptions, on their own, would have reduced liability by 25 per cent. Both AR and ER were significantly reduced and the divergence between them increased.

(e) Since the value of farm buildings and machinery was minimal relative to the value of land, their inclusion within the scope of agricultural relief made virtually no difference to liability, AR or ER. For large farmers like this, all the concessions were gained before and in the May speech.

## *General Comment*

### *Conclusions from the Cases*

Although the cases are hypothetical, a number of general conclusions can be drawn.

(1) The most important concessions were those announced in May which reduced significantly the liability in all cases: in none of the cases was liability reduced by less than 60 per cent; in Case 5 it was reduced by 95 per cent; in Case 2 by almost 90 per cent. In addition to this, the May changes brought a large number of people with moderate wealth (£60,000-£140,000) out of the WT net.

(2) The Agricultural Sector received its main sectoral benefit with the special relief in the White Paper. The subsequent broadening of the definition of agricultural property was only of significant value to farmers of moderate wealth, in particular those for whom the MV of land plus buildings plus machinery was just £200,000. For very large farmers buildings plus machinery were only a small portion of net wealth so that extending relief to these items had only a small effect on liability.

(3) The exemption of livestock, which accounted for roughly 8-12 per cent of a farmer's net wealth, less if the farm was mainly tillage (Farm Management Survey, 1977) would have reduced AW and liability, by a similar or greater percentage, the relative reduction being greater the smaller the farm.

(4) The sectoral benefits for business assets were only realised in the WTB but were significant and could have reduced liability by up to 20 per cent.

(5) The WT would only have applied to very large farmers. The less wealthy of such farmers were treated favourably *vis-à-vis* owners of other forms of wealth, in other words, farmers would require a higher net wealth before becoming liable and, in the case of two individuals with equal levels of wealth, the non-farmer would pay more WT than the farmer. This relative benefit decreases as the size of estate rises and disappears once the MV of Agricultural property exceeds £500,000.

### *Rates of Wealth Tax*

The WT was effectively progressive, albeit at a very low rate; the ER would have ranged from insignificance for a married person just above the threshold, to around 0.4 per cent for a person with an MV of £0.5m and would have

been unlikely to exceed 0.65 per cent for a millionaire (if it even reached that figure). The AR would have been higher than this, reaching 0.5 per cent for a person with £0.5m and around 0.75 per cent for a millionaire.

*Effective Thresholds*

For a person whose assets were primarily productive assets eligible for 20 per cent relief, the effective thresholds were for a single person, £87,000[63] plus the value for exemptions, totalling around £100,000; for a married person (no minor children) £125,000 plus exemptions, implying about £150,000. For a farmer, the effective threshold, if single, was £140,000 plus exemptions, therefore about £170,000; if married (no minor children) £200,000 plus exemptions therefore about £250,000. The effective threshold for hoteliers was about the same as that for farmers.

These effective thresholds are only rough estimates. The value attributed to residence is arbitrary and no account is taken of pension rights. It has been assumed that all taxable assets have been eligible for relief; but no allowance has been made for undervaluation.

63. The nominal threshold was £70,000, hence a person attracting relief on all taxable assets would not become liable until (assuming no exemptions) net wealth-relief (20 per cent of MV) = £70,000, i.e., at net wealth of £87,000. This method of computation is used in all the cases.

## Appendix C

### *ESTIMATES OF THE DISTRIBUTION OF WEALTH IN IRELAND AND THE POSSIBLE YIELD OF ALTERNATIVE WEALTH TAXES*

Research on the distribution of wealth in Ireland has been carried out by Nevin (1961) and Lyons (1972a, 1972b, 1972c, 1974 and 1975), both of whom applied the mortality multiplier technique to Estate Duty data. This methodology and its limitations are discussed in the first section of this Appendix. The major findings of Lyons' study (being the more reliable and recent than that of Nevin) are then presented and their validity considered. Finally, Lyons' results are compared with the available WT statistics and an attempt made to estimate the possible yield of a WT at different threshold levels and without the exemptions and reliefs which characterised the Irish WT as enacted.

#### *Mortality Multiplier Method*

This method is based on the assumption that the estates of those who die in a given year are representative of the total population in that year. "Accordingly, the wealth which forms their estates is regarded as being a representative sample of the wealth possessed by the surviving individuals" (Lyons, 1972b, p. 160). If the estates of the deceased are classified according to age and sex,[64] and the mortality rate for each age-sex cell is known, then by multiplying the number of deceased in each cell by the reciprocal of the mortality rate for that cell (i.e., the mortality multiplier) the total population in each cell can be estimated. Similarly, if the wealth of the deceased in each cell is known, the application of the mortality multiplier gives an estimate of the wealth of the total population in that cell. For example, assume the mortality rate for males aged 55 to 65 is 10 per cent (i.e., one in every ten of all males in that age group die each year) and that 500 such males die in a given year leaving estates worth a total of £20m: then the mortality multiplier of ten (the reciprocal of mortality rate) yields the estimate that there were 5,000 males aged between 55 and 65 in the total population and that the aggregate wealth of this age-sex cell was £200m. In this method, the distribution of aggregate wealth in the population can be estimated if the distribution of wealth among the deceased, and the mortality multipliers, are known.

64. At the time of Nevin's (1961) study, Estate Duty data were not classified by age and sex, therefore his findings were less reliable than those of Lyons.

There are a number of limitations implicit in this approach which can generally be classified as one of three types.

(1) The mortality multipliers, or rather the mortality rates, may be inaccurate. Lyons' initial studies (1972a, 1972b) were based on general population mortality rates but these may be deficient: mortality rates vary between regions (Lyons 1972c); between occupations; and between social classes – with wealthier people having a higher expectation of life. Lyons (1975) considered these problems and applied a number of different mortality rates to the Irish data concluding that his earlier estimates on the degree of concentration (see below) may have been slightly high. In a detailed study of various mortality multipliers, Atkinson and Harrison (1978) found that while changing the multipliers altered the estimates of aggregate wealth, it did not appreciably alter the general trend in wealth distribution in the United Kingdom.

(2) The composition of the estates of the deceased may be unrepresentative of the wealth of the entire population. This problem could arise where Estate Duty returns were inaccurate due to avoidance (through gifts *inter vivos*), evasion, or a concessionary under-valuation for purposes of the tax, as with agricultural land in Ireland. Furthermore, only estates over a certain value were liable to Estate Duty so that estates below that value were not examined by the Revenue. By analysing data on all estates, both liable and not liable, Lyons (1972b) partially circumvented the latter problem. Finally, for Ireland at least, there was a long time lag between death and assessment of estates (see Lyons, 1972b, Appendix).

(3) The demographic characteristics of the deceased may not have been representative of the population in the relevant age-sex cells. Lyons began, but never published, an investigation of this problem.

Thus, this method of using Estate Duty returns and mortality multipliers to estimate wealth distribution has many problems, not all of which can be taken account of by the researcher. However, the authors of a comprehensive study on this subject concluded that "the estate method provides a valuable foundation for estimating the distribution of wealth" (Atkinson and Harrison, 1978). Accordingly, some attention should be given to Lyons' results.

### *Wealth Distribution in Ireland*

In successive papers, Lyons revised and refined his estimates of wealth distribution. Most importantly, his last paper (Lyons, 1975) used four different sets of mortality multipliers to give four separate estimates of wealth distribution. Table C.1 presents the essential elements of two of the distributions: the "maximum" concentration is that distribution in which the greatest amount of wealth was owned by the top percentiles (and the largest portion of the population were assumed to hold no wealth); the "minimum" concentration is that distribution in which the top percentiles had least wealth (and the percentage of the population assumed to have no wealth was lowest). It can be noted that Lyons' paper (1972b) which received extensive publicity (see Chapter 4), presented a more concentrated distribution than the "maximum" of Table C.1.

An alternative way of viewing the data in the table is that, under "maximum" concentration, the top one per cent of the population owned 34 per cent of wealth and the top five per cent owned 63 per cent whilst under "minimum" concentration, the top one per cent owned 32 per cent and the top five per cent owned 60 per cent (Lyons, 1975, Table 5). Given the limitations of the methods used, this estimation could provide no more than an indication of wealth distribution, but it suggested that distribution in Ireland was more unequal than in the UK (Lyons, 1972b). Two particular criticisms of Lyons' results deserve attention: that his estimates of wealth distribution were in terms of persons rather than families; and that he had overstated the number assumed to have no wealth.

The first criticism was made by Professor Smith (*Irish Independent*, 25 March 1972) who argued that while the head of the household (generally the husband) was legally the owner of all the wealth, it was not correct to

Table C.1: *Distribution of wealth of people aged 20 and over, 1966*

| *Net wealth* | *Maximum estimate* | | *Minimum estimate* | |
|---|---|---|---|---|
| £ | % *Population* | % *Wealth* | % *Population* | % *Wealth* |
| 0 | 62.0 | 0 | 57.1 | 0 |
| 0 – 5,000 | 32.6 | 35.6 | 36.9 | 36.4 |
| 5,000 – 50,000 | 5.1 | 48.3 | 5.7 | 48.1 |
| 50,000 – | 0.23 | 16.1 | 0.24 | 15.5 |

*Source:* Lyons (1975) Table 4. Percentages may not add up exactly to 100 due to rounding.

claim that the rest of the household was propertyless. Accordingly, attributing all wealth to the head of the household would exaggerate the degree of inequality. Lyons was well aware of this problem and countered with the argument that if wealth was measured in terms of family ownership then, since a family (in the dynastic sense) could include a number of wealthy individuals, the degree of inequality in wealth distribution might prove greater than if analysed in terms of individuals (Lyons, 1972c). However, Estate Duty returns do not permit an analysis of wealth ownership by family and the attempts by Lyons to identify wealth ownership by married couples, based on assumptions regarding how males and females were "combined" (Lyons, 1974), while indicative, were hardly robust. The simple truth is that the available data limits analysis to the distribution of wealth amongst individuals.

A second criticism was that Lyons assumed too high a percentage of the population to have zero net wealth. In making this assumption Lyons was constrained by the limitations of the data, which were sparse for small estates, but his assumption could be defended in that wealth was assumed to be the property of the head of the household; nobody was assumed to have negative net wealth (although surely there were people in debt); and given debts or mortgages, many people would have had virtually zero net wealth. Lyons (1972b) pointed out that if *all* those with net wealth were each allowed £50, the estimate of total wealth would only be increased by 2.5 per cent and the inequality of distribution would be only slightly reduced.

## *Estimates of the Revenue Yield of Alternative Wealth Taxes*

Lyons' estimates of total wealth and, in particular, of its composition were more dubious than his estimates of wealth distribution. The principal problem was undervaluation of assets in the Estate Duty returns, especially agricultural property, shares and insurance policies. Hence, the estimates of the composition of wealth are not reproduced here. However, in this final section of the Appendix, an attempt is made to use these data, along with that of the Revenue Commissioners, to make "guesstimates" of the possible yield of a WT with different thresholds and without reliefs and exemptions.

### *Eliminating Exemptions and Reliefs*

One clear finding to emerge from this study is that the existence of exemptions and reliefs greatly reduced the effectiveness of the WT to achieve its objectives and reduced its yield. What might the WT have yielded had there been no exemptions or reliefs? In answering this question individuals will be considered first, then Discretionary Trusts and PNTs.

*Individuals* The annual average value of exemptions for individuals was £100.1m, the net value of exempted property being £97.9m (see Table A.6); therefore, had such property been directly chargeable to WT at one per cent, the additional WT yield would have been about £0.98m (more than a third of the annual average WT yield from individuals). However, it is unreasonable to assume that no assets would be exempt from WT (e.g., Art Collections). If only the assets classed as "other" in Table A.6 were exempted, then the additional WT yield (from taxing residence, livestock and bloodstock) would be £0.9m. However, these figures are underestimates, first, because the values of exempted property given in the Revenue data are likely to represent undervaluations; second, because the removal of exemptions would have increased the number of people who would have been liable to WT.

Estimates of the potential WT yield from the existing WT payers had there been no reliefs can only be made in a roundabout way because the value of debts for all classes of asset is not known (see Table A.7). However, had there been neither reliefs nor exemptions, then the WT yield would have been one per cent of net wealth less thresholds, or £4.61m. The actual yield was only £2.75m (average annual). As £0.98m was the additional yield from abolishing exemptions, the residue, £0.88m must be the additional yield attributable to abolishing reliefs.

*Discretionary Trusts* The average annual net wealth of the exempted assets of Discretionary Trusts was £2.48m (Table A.6), implying a potential WT yield of almost £25,000, 97.5 per cent of which was exemptions classed as "other". If only residence, livestock and bloodstock were made liable for WT, the additional revenue from Discretionary Trusts would have only been around £600. Had there been neither exemptions nor reliefs, the WT yield from Discretionary Trusts would have been around £1.02m, (Table C.2), of which slightly over £0.1m would have been WT on the value of assets previously relieved of WT.

*Private Non-Trading Companies* The average annual net wealth of the exempted assets of PNTs was £3.39m, of which 99 per cent was of assets classed as "other", implying a potential additional WT yield of almost £34,000 if there were no exemptions. Had there been neither exemptions nor reliefs, the WT yield from PNTs would have been around £1.58m (instead of £1.44m) of which £106,000 would have resulted from there being no reliefs.

Table C.2 summarises the findings and shows that the total value of exemptions and reliefs, in terms of revenue forgone, was £2.13m (over 40

Table C.2: *Yield of wealth tax from existing wealth tax payers if no exemptions and reliefs (average annual values)*

| | Individuals £m | DTs £m | PNTs £m | All assessable persons £m |
|---|---|---|---|---|
| (1) WT yield (as under WT Act) | 2.7 | 0.89 | 1.44 | 5.08 |
| (2) Net wealth of exemptions | 97.93 | 2.48 | 3.395 | 103.81 |
| (3) Potential WT yield from abolishing exemptions | 0.98 (0.9) | 0.025 (0) | 0.034 (0) | 1.039 (0.9) |
| (4) Potential WT yield from abolishing reliefs | 0.88 | 0.05 | 0.106 | 1.091 |
| (5) Total potential yield (1) + (3) + (4) | 4.61 (4.53) | 1.02 (0.995) | 1.58 (1.55) | 7.21 (7.07) |

*Notes:* The figure in parentheses is estimated on the assumption that exempted assets except residence, livestock and bloodstock, remained exempt.

per cent of average annual WT yield) so that, had there been no exemptions or reliefs, annual WT yield from existing WT payers would have exceeded £7m.

This figure is a very substantial under-estimate of what the yield of WT would have been with the thresholds as enacted but without exemptions and reliefs because it relates only to existing WT payers. It takes no account of those whose assessed wealth would have exceeded the threshold had there been no exemptions and reliefs. This underestimation relates solely to individuals, as Discretionary Trusts and PNTs did not benefit from thresholds.

It is not possible to make good this deficiency from data from the Revenue Commissioners. Instead we have to use Lyons' data to make some global estimates of yield on various assumptions about thresholds.

### *Up-dating Lyons' Data*

Lyons' estimates of total wealth and the distribution of wealth in Ireland relate to 1966. The data based on the Revenue Commissioners' Reports relate to annual averages centred round the year 1976. The first and biggest adjustment required to Lyons' data is to up-date them to 1976.

Lyons' estimate of aggregate net wealth in 1966 was £2,650m. This has been up-dated on the basis of two assumptions. *Assumption A* is that wealth rose in proportion to the consumer price index. (This would be valid if real wealth remained unchanged and the assets constituting wealth rose in price at the same rate as the CPI.) *Assumption B* is that wealth rose at the same rate as the money national income. (This would be valid if real wealth rose in proportion to the rise in income and the assets constituting wealth rose in price at the same rate as the composite of items comprising the national income.) Although these two assumptions cannot be said to constitute the conceivable limits for aggregate net wealth in 1976, they can reasonably be taken as lower and upper bounds. It is inconceivable that, over a decade when real income had risen appreciably, there would be no growth in real wealth and very unlikely that such growth would not at least counteract any tendency for asset prices to rise less than CPI. At the upper end, as wealth is a stock, much of it in the form of land and buildings, with a very long (or permanent) life, it is clear that real wealth must have grown at a lower rate than real national income even if asset prices rose more than the components of national income.

Over the decade the CPI rose 150 per cent, so the estimate of aggregate net wealth in 1976 under assumption A is £6,625m. The national income rose by 323 per cent, to give an estimate of aggregate net wealth under assumption B of £11,200m.

If we assume that the same distribution of wealth held in 1976 as in 1966, then, using up-dated Lyons' data, we can estimate, under assumptions A and B, how much wealth would be taxed (and what the revenue would be at one per cent) at any specified threshold, assuming no exemptions and reliefs. For these purposes we use an "average" threshold. To attempt to allow for marital and family circumstance, as in the WT as enacted, would be too sophisticated for the imperfections of the data and unnecessary for the purpose of making rough estimates of revenue yield.

Table C.3 gives the results under assumptions A and B for thresholds of £150,000 (approximating an effective threshold for the WT as enacted), £100,000 (the nominal threshold for married persons in the WT as enacted) and £50,000 (the nominal threshold for married persons in the White Paper).

If we assume an effective average threshold for the WT as enacted, i.e., the threshold needed to raise the same revenue without exemptions and reliefs, we can cross check the outcome from using Lyons' up-dated data with that from the Revenue Commissioners.

In fact, £150,000 is a reasonable estimate of such an effective threshold. Our sample data suggest that the average nominal threshold for the WT as

Table C.3: *Estimates of yield of one per cent wealth tax with various thresholds and no exemptions or reliefs, 1976*

| Average Threshold | Assumption A (Total wealth £6,620m) | | Assumption B (Total wealth £11,200m) | |
|---|---|---|---|---|
| | % of Total wealth subject to tax | Revenue yield £m | % of Total wealth subject to tax | Revenue yield £m |
| 150,000 | 12.8 | 8.5 | 23.5 | 26.3 |
| 100,000 | 20.8 | 13.8 | 28.8 | 32.3 |
| 50,000 | 33.7 | 22.3 | 46.1 | 51.6 |

*Note:* Revenue yield equals one per cent of net wealth.
*Source:* Based on Lyons' estimates of total wealth, up-dated.

enacted was probably just under £100,000.[65] Allowing for the exemption of a house and contents, together with other exemptions and reliefs might well add a further £50,000. Calculations from the Revenue Commissioners' data led to the conclusion that the WT as enacted but without exemptions and reliefs would have yielded £7.21m.[66] This compares with the estimates of £8.5m under assumption A and £26.3m under assumption B of Lyons' up-dated data.

Although we had considered assumptions A and B as lower and upper bounds, it is not all that surprising that the revenue estimate from the Revenue Commissioners' data comes out below the estimate derived from assumption A (and not in between that from A and B as one might have expected). We know that some taxpayers or potential taxpayers engaged in tax avoidance and from our discussions we also gained the impression that many who might have been liable simply did not submit returns – which constituted evasion. In addition there is good reason to believe that there was under-valuation of exempt assets (house and contents) where a nominal figure may have often been inserted because they did not count for tax and would not be checked; and also of assessed assets, for a number of reasons outlined in Chapter 7. Because of the existence of a high threshold any under-valuation has a disproportionate effect on yield. For example, consider a taxpayer with net wealth of £200,000 facing an effective threshold of

65. The average for the sample was £98,990 – derived from data in Table A.3.

66. The revenue from all assessed persons, and not just from individuals, is taken for purposes of the comparison because it is to be expected that the owners of PNTs and the beneficiaries of Discretionary Trusts would be found almost wholly amongst those with enough property to be wealth tax payers.

£150,000. If there is no under-valuation he pays tax of £500 (one per cent of £50,000). If all his property is 20 per cent under-valued, then the assessed value is £160,000 and he pays tax of £100 (one per cent of £10,000).

There are, of course, other possible explanations of the discrepancies between the findings from Lyons' data and that of the Revenue Commissioners. The limitations of Lyons' data have already been acknowledged. It may be that Lyons over-estimated total wealth and/or over-estimated the inequality in its distribution. It could be that wealth was less unequally distributed in 1976 than in 1966. It may be that the figure of £150,000 as the effective average threshold for the WT as enacted was an under-estimate.

None the less, it does seem to the authors that a general under-valuation of assets as returned for the WT would constitute a sufficient explanation of the discrepancies. If exemptions were abolished, under-valuation might be less because the values of hitherto exempt assets would be tested. But, given the methods of administration some under-valuation would continue, indeed, the experience of wealth taxes elsewhere makes it clear that some under-valuation is inevitable. Given this situation, the estimates under assumption A probably represent a not unreasonable indication of revenue yields at different thresholds.

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